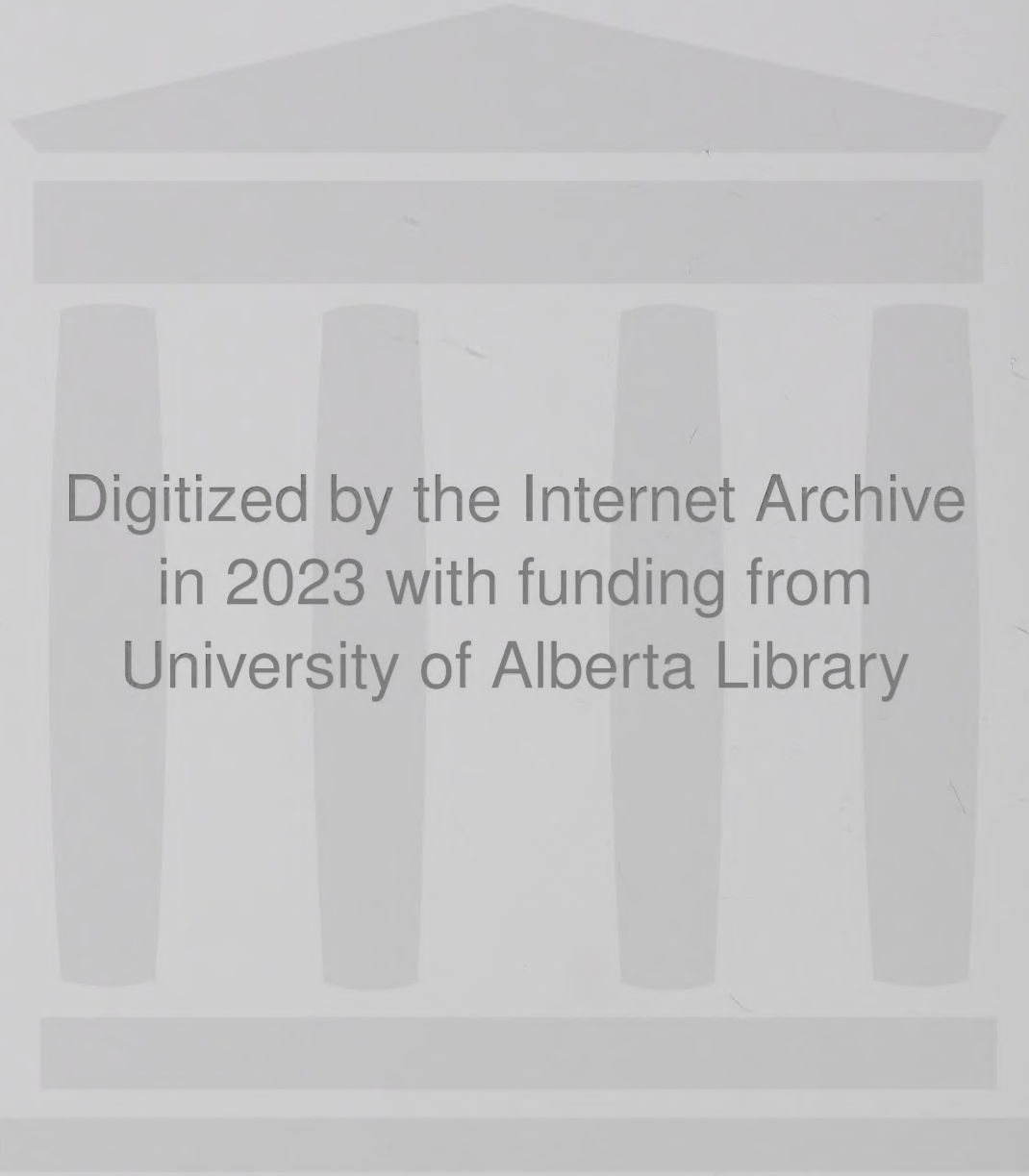


AR06

1986 Annual Report



Silver Hart MINES LTD.



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Hart Silver property — lower TM trench, south end (chip sample showed 200 oz. of silver per ton over 6 feet)

Corporate Profile

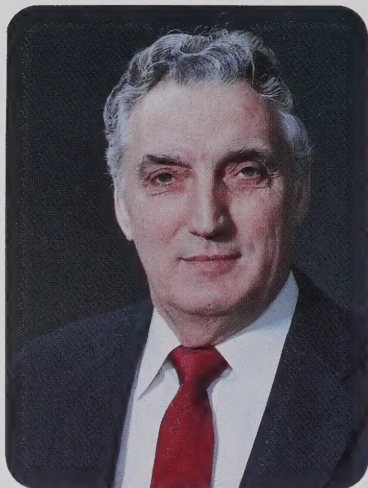
Silver Hart Mines Ltd. was founded as an Alberta corporation in December, 1982. It went public in April, 1984 on the Vancouver and Alberta Stock Exchanges and on January 2, 1985 began trading on NASDAQ in the United States.

Since inception, the Company's strategy has been to maintain a small, highly professional team which can locate and stake or acquire gold and silver properties in Canada and bring them into production. Silver Hart currently holds and is actively exploring a high grade silver property in the Yukon Territory (Hart silver property). It also holds and is exploring four large gold properties of the iron formation hosted type in the Bathurst Inlet area of the North West Territories and an important gold deposit near Snow Lake, Manitoba. Its land position in aggregate exceeds 219,000 acres. It is expected that the Hart silver property will be brought into production in late 1987 and the Snow Lake property approximately a year later.

As of December 31, 1986 there were 5,884,840 common shares outstanding. During 1986, a total of 388,700 shares were traded on the Vancouver Stock Exchange and a total of 212,464 shares on NASDAQ. The trading symbol in Canada is SVM and in the United States is SVMHF.

Financial Highlights

	1986	Years Ended December 31		1983
		1985	1984	
Total Assets	\$17,014,031	\$ 8,570,206	\$ 2,824,038	\$ 1,260,044
Funds Used In Exploration Development including funds expended on behalf of unitholders	\$ 7,837,360	\$ 4,716,839	\$ 1,111,490	\$ 317,973
Shareholders' Equity	\$10,063,013	\$ 7,106,343	\$ 2,367,715	\$ 1,205,982



Alvin Harter

President's Report

It is a pleasure to report that the year 1986 marks an exciting and significant step to the success and future of Silver Hart Mines Limited.

Major activities during 1986 included an extended surface exploration program of stripping and trenching on the Hart Silver Property in the Yukon which led to the initiation of a feasibility study. A large program at the Bathurst Inlet, N.W.T., properties consisting of an airborne electromagnetic survey followed by geological mapping, prospecting, sampling and geophysical work was also completed. One of Silver Hart's subsidiaries, Snow Lake Mines Ltd., raised sufficient new capital to enable us to complete the purchase of the Snow Lake gold property on October 25, 1986, and begin an extended exploration program which is still continuing. As a result of the extensive work program during 1986, the Company is now well on its way to becoming one of Canada's major silver producers. Our knowledge of the large and important Bathurst Inlet properties has been greatly expanded, and Snow Lake's ore reserves have increased significantly.

Hart Property

The underground exploration program which was started in 1985 was completed in the first part of 1986. The work included an aggregate of about 1900 feet of adit, drifts and raises and permitted bulk sampling for metallurgical testwork. From July to October, extensive stripping and trenching operations were carried out using a bulldozer and large back-hoe which resulted in exposing an aggregate of about 3800 feet of mineralized strikelength. A series of relatively shallow drill holes were put down at intervals along the structures to provide supplementary data to the trenching.

Our independent consultant has estimated silver reserves to date as approximately 1,900,000 ounces in the Proven/Probable category and approximately 11,600,000 ounces in a 'Geological Reserve'. The latter estimate is based on his interpretation of current data along with work in the district on other properties.

New geological data obtained during the year led us to stake a total of 1007 claims contiguous to our present ground, extending our overall holdings to approximately 86,000 acres of ground prospective for high grade silver mineralization. Less than 5% of this large area has been explored to date and a wide-ranging program is planned for the summer of 1987.



Hart Silver property — scoop tram at underground portal

Snow Lake Property

A public funding for Snow Lake Mines was completed on October 20, 1986 and triggered a flow-through share commitment of \$952,000 to be expended by February 28, 1987, on exploration expense. In the four month period, a total of approximately 40,000 feet of diamond drilling was carried out. The drilling in part tested gold occurrences established by prior work but mainly investigated a new discovery, the Birch Lineament, a strongly-altered and gold-mineralized structure located approximately 4000 feet north of the No. 3 Zone (which contains most of the proven ore reserves) and extending for at least 6000 feet along strike.

At least two ore shoots have been identified within the Birch Lineament and drilling there has added significantly to our tonnage. Work is continuing in the Birch Zone area and also at the No. 3 Zone where a new geological assessment indicates that a significant extension of the known zone may have been displaced approximately 600 feet along a fault.

Later in 1987 a decision will be made as to the initiation of underground exploration to obtain a bulk sample for metallurgical test purposes, allowing us to complete our feasibility and to facilitate drilling at deeper levels.

Bathurst Inlet Properties

held by Silver Hart Mines Ltd.

An airborne electromagnetic survey, using a helicopter at 125 meter line spacing, was completed by early July over these properties which include Pistol Lake, Turner Lake, Hood River and the Warner. It was designed to detect sulfide-rich iron formations, which are the known hosts for gold mineralization in this area, and a large number of interesting anomalies were found. Two particularly large gold bearing structures were identified, one near Turner Lake and one under Kathleen Lake on the Warner Property.



Pistol Lake — airborne electromagnetic survey

Subsequent to the airborne survey, a field geological crew carried out an extensive program of mapping and prospecting which greatly enhanced the potential of the Pistol Lake and Turner Lake properties. Much information was gained on the known F and G zones at Pistol Lake and new zones were opened up at Turner Lake. In each case, the results will facilitate future drilling and greatly increase its effectiveness. An opportunity now exists to establish the large tonnages in this area which will be required to support a mine and mill.

1987 Work Program

The feasibility report on the Hart Silver Property has just been completed and a production decision can now be made. The Company is currently examining avenues of financing a mine/mill operation. Given an early commitment on funding, a mill will be placed in operation by year-end. Surface stripping will recommence as soon as snow conditions permit and will continue throughout the summer.

Snow Lake Mines is already embarked on a 1987 exploration program with 2 diamond drills operating and exploration there will continue throughout the year.

A moderate diamond drilling program is planned to test extensions of the known gold zones at Pistol Lake and the newly-discovered zones at Turner Lake. At the Warner Property, Vanstates Resources Ltd. will fund a program of geophysical work and diamond drilling working from the ice on Kathleen Lake in the late spring of 1987.

All of the above-noted work will be funded by flow-through shares, issued in part as a private placement to our shareholders and in part through negotiated deals with Limited Partnerships which are organized to raise flow-through funding on a wholesale basis.

Corporate

Following our signing of a purchase and sale agreement for the Snow Lake property in March 1986, Snow Lake Mines Ltd. was incorporated as a vehicle to acquire and explore the property. Snow Lake raised \$1,620,000 in a public offering and \$952,000 in a flow-through private placement and completed purchase of the property on October 25, 1986. Our holding in Snow Lake as of December 31, 1986 amounted to 3,500,001 shares or 59.3% of Snow Lake's outstanding shares. This percentage holding will reduce as flow-through shares are issued by Snow Lake and it is our intention to minimize such reduction by subscribing to our pro rata portion of such issues. As part of our agreement with Snow Lake, Silver Hart supplies management services at cost plus a fee and has an option to re-acquire a 30% interest in the property by reimbursing Snow Lake 30% of all acquisition costs and exploration expenditures incurred on the property, less a credit of \$371,250. This option is exercisable for 30 days after announcement of a production decision. If the option is exercised, Silver Hart's direct and indirect interest in the property would then be approximately 70%.

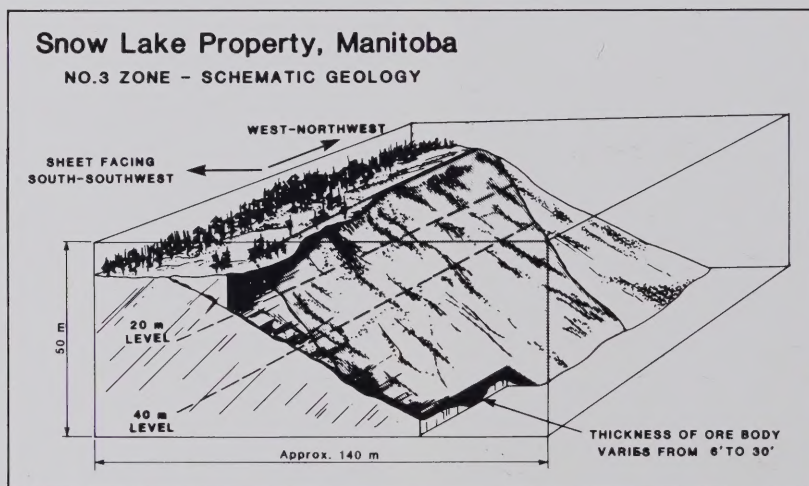
We wish to thank our shareholders, now about 1000 in number, for your support and confidence. We all look forward to the initiation of our first producing mine.

ON BEHALF OF THE BOARD OF DIRECTORS

Geological Section



Snow Lake — core sample showing visible gold



Snow Lake Property

By the end of 1986 an aggregate of 10,400 feet of diamond drilling had been completed in 31 holes on this property and an additional 29,276 feet was completed in 61 holes by March, 1987. The most important outcome of the program was the discovery of the Birch zone which is a strongly altered and goldmineralized structure, approximately 4,000 feet north of the No. 3 zone. To date drilling on the Birch zone has added substantially to our ore reserves at Snow Lake. Drilling on this zone is still in progress.

Another important development was the discovery of a fault that cuts off the No. 3 zone to the east where it reaches its best development with widths in excess of 30 feet and grades of 0.339 ounces gold per ton. The geological indications are that the faulted off portion has been displaced downdip by approximately 600 feet. This situation is currently being tested by diamond drilling and a successful outcome would enhance Snow Lake's ore reserves substantially.

Proven and indicated ore reserves have increased to 426,000 tons at an average of 0.302 ounces gold per ton. The additional tonnage is derived from the new Birch zone and from the western end of the No. 3 zone.

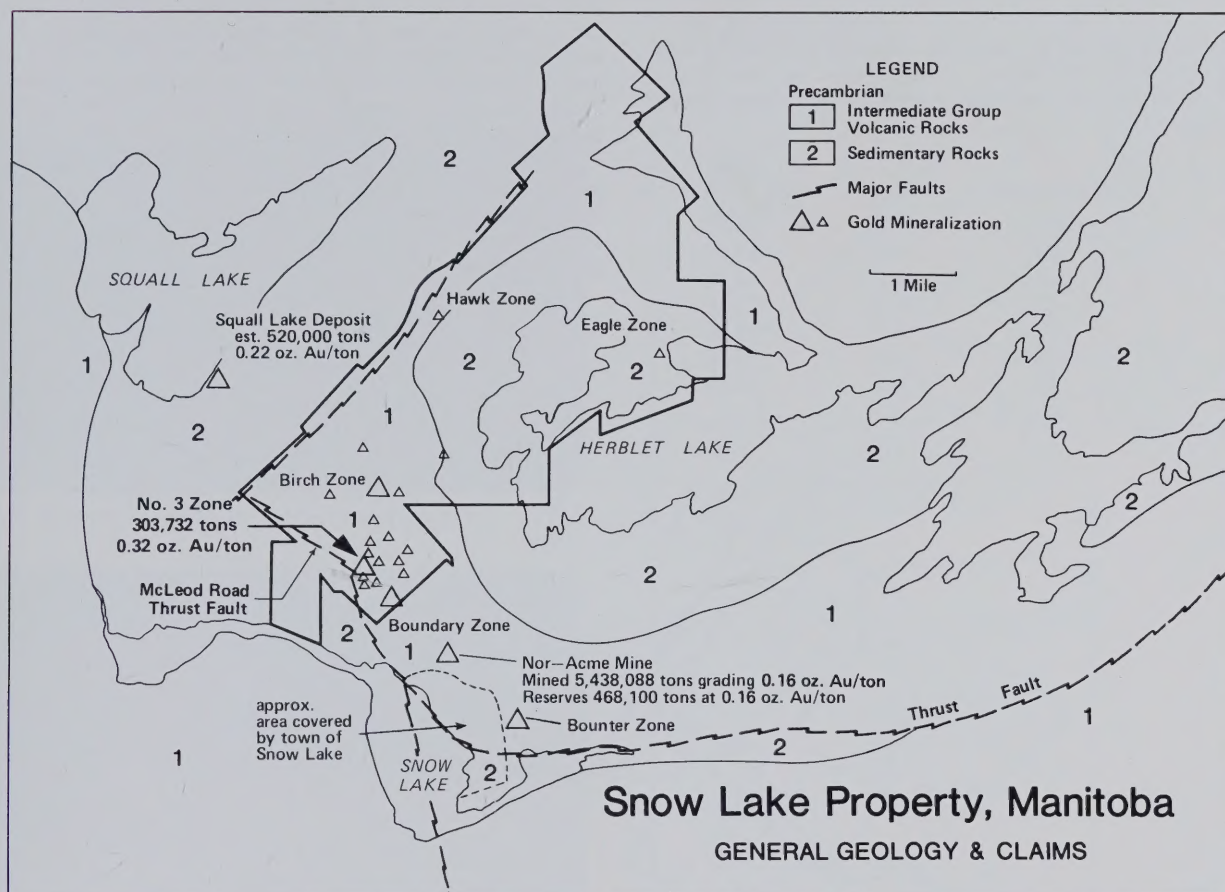
In the course of the major drill program that was just completed, several goldbearing zones were tested as noted below:

No. 3 zone	15 holes for 4,427 feet
No. 4 zone	5 holes for 1,365 feet
Central zone	5 holes for 1,098 feet
East zone	7 holes for 4,128 feet
Sherry zone	4 holes for 928 feet
Birch zone	28 holes for 14,987 feet
Birch West	17 holes for 8,281 feet
Moffin Lake	1 hole for 358 feet
Birch-Olsen	5 holes for 2,272 feet
Birch East	3 holes for 1,782 feet
North Birch Linear	1 hole for 408 feet
Total	91 holes for 40,034 feet

The main objective of the 1987 program is to increase the tonnage above 1 million tons. A second objective is to carry out a bulk sampling program to obtain material for metallurgical test purposes.

This program will enable us to undertake a feasibility study late in the year.

Snow Lake Property



Snow Lake — diamond drill operating

Hart Silver Property, Yukon

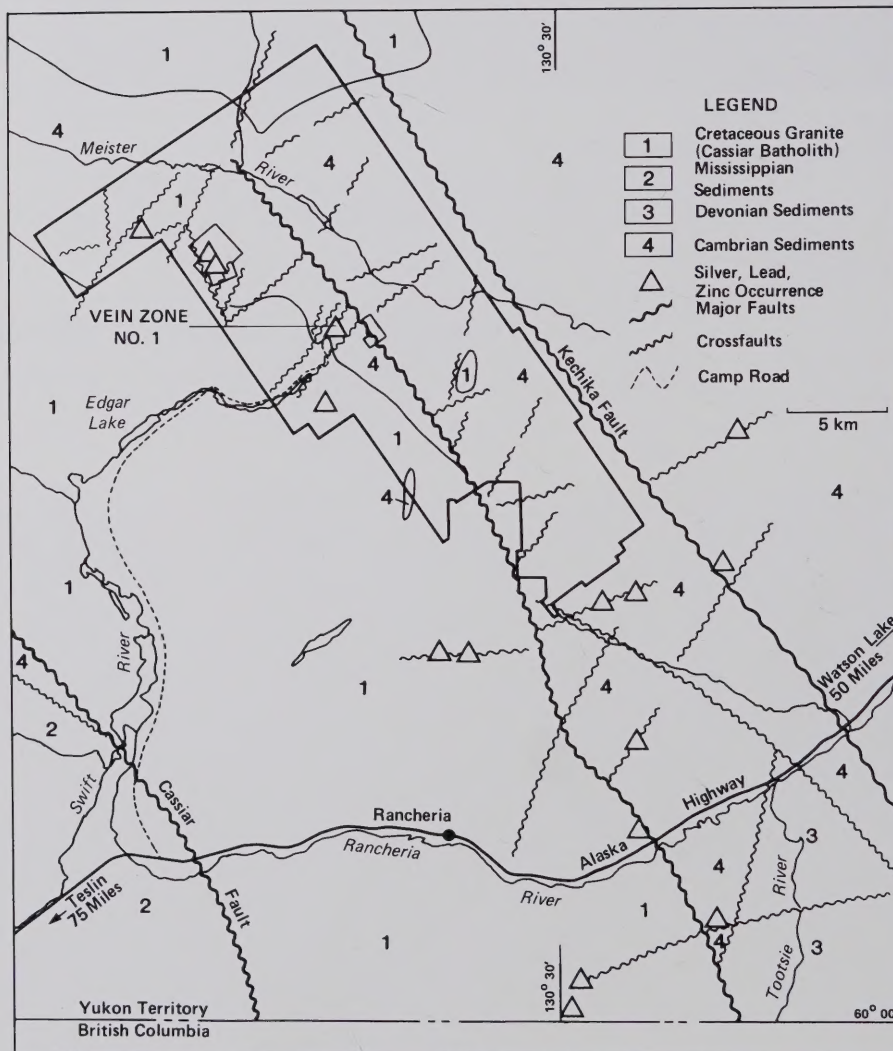
An extensive program of trenching, mapping and drilling was carried out during the 1986 season which opened up new silver-mineralized structures and extended known zones. These zones are listed below:

	Strikelength (ft.)	Width (ft.)	Grade (oz. of Silver per ton)
Main TM	225	6.2	44.64
Lower TM	204	6.2	44.64
South TM	25	10.6	101.50
KL	201	8.2	33.38
KL North	173	4.6	13.05
Meteor	70	4.0	45.63
Total	907		

In the course of the year we completed a 1,912 ft. underground exploration and development program, followed by bulk sampling and metallurgical testwork. In addition, 27 drillholes for a total footage of 4,579 feet were completed. Extensive trenching operations opened the main mineralized fault structure over a strikelength of 3,800 feet. Soil sampling produced several highly anomalous targets which will be tested during the 1987 season.

The 1987 exploration program will aim at increasing the reserves of surface near highgrade material which is amenable to openpit mining methods.

A feasibility study has been completed and a production decision is pending.



Hart Silver property — location and fault systems

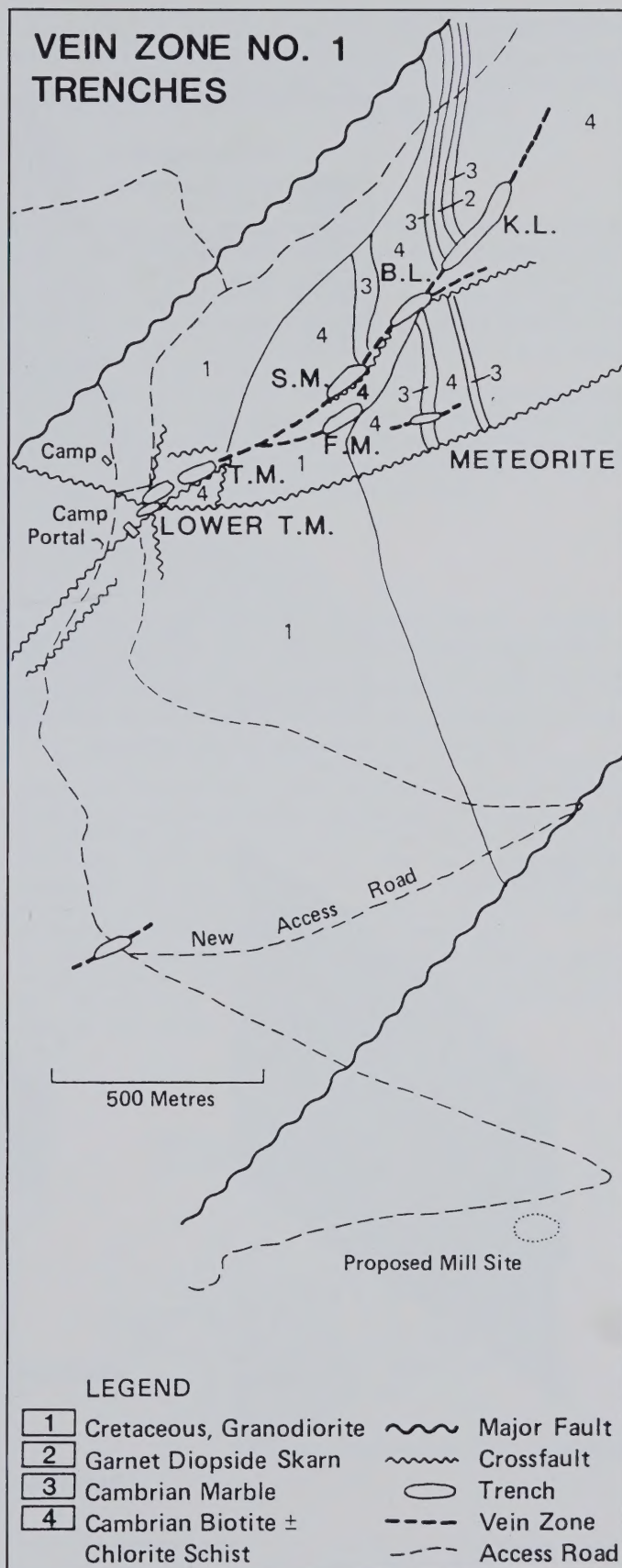
Hart Silver Property, Yukon



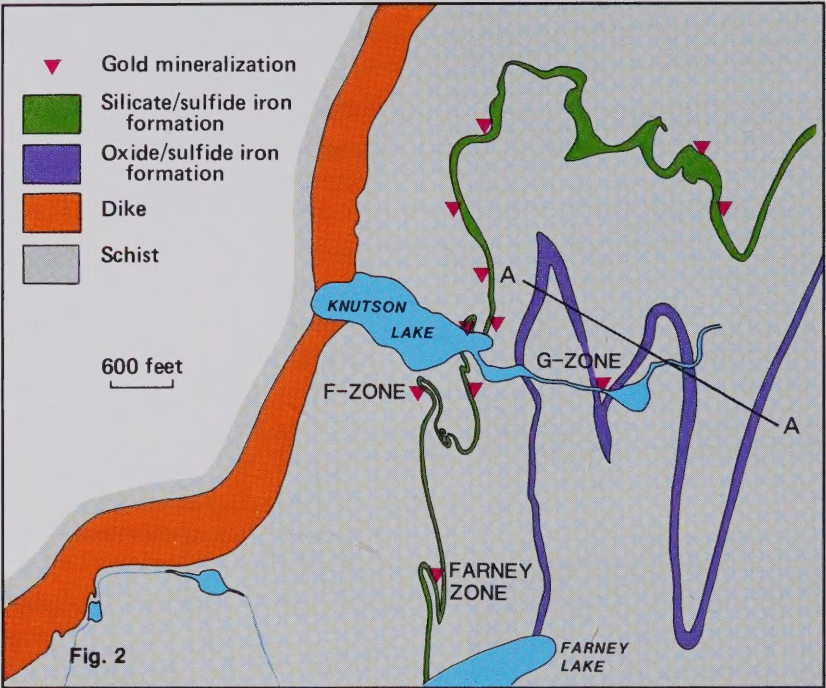
Hart Silver property — air photo of roads and trenches



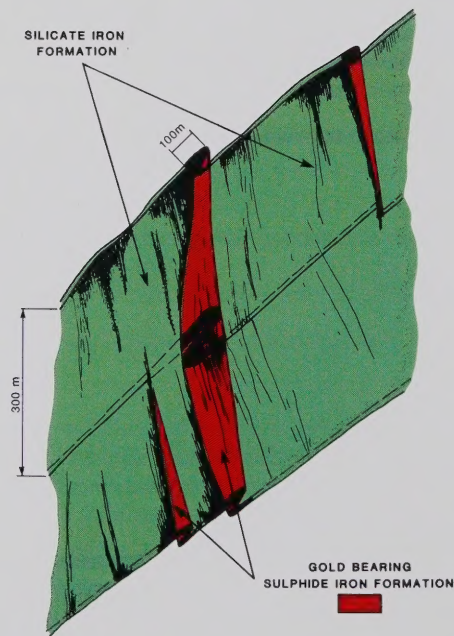
Hart Silver property — TM trench, looking north



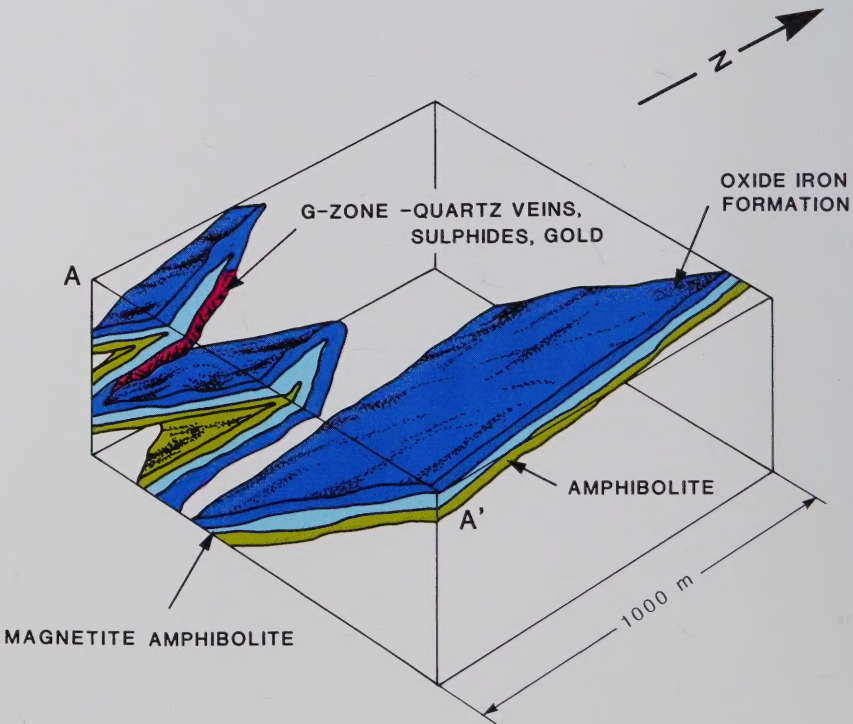
Pistol Lake, N.W.T.



Pistol Lake — iron formations



Pistol Lake — F-Zone schematic view



Pistol Lake — G-Zone schematic view

Pistol Lake Project

Mapping and trenching continued on this property and important new insights were gained. The most significant development was the recognition of the Farney zone fold structure. The zone is folded into a Z fold, situated on the west limb of the overturned syncline. The fold structure plunges gently to the southwest, dipping at 43 degrees. At shallow depths previous drilling had indicated grades ranging up to 0.382 oz. gold per ton and widths to 8.4 feet. Commonly, significant changes in grade and width are possible along the downplunge axes of such structures and, once the structure is known, it is possible to test it by deeper drilling.

During the report year no drilling was carried out and our reserves of gold mineralized material remain unchanged from 1985 at 580,000 t @ 0.406 oz. gold per ton at an average width of 5.0 feet. This combined tonnage is derived from the F and G zones, based on the previous drill results.

The main objective of future work programs on the Pistol Lake property is to increase the tonnages and the widths substantially. Previous drill information shows that ore grades can occur over widths in excess of 20 feet and that widths in excess of 10 feet are not uncommon:

Hole No.	oz. per ton	Width in feet
PL - 1	0.987	10.0
PL - 3	0.336	14.0
85 - 10	0.536	9.8
85 - 15A	0.248	24.0

An exploration proposal has been developed for a 20,000 foot diamond drill program and it is hoped that this program can be started during the 1987 season. It is expected that the proposed program can boost the tonnage beyond 2 million tons and that an average width of 12 to 25 feet can be established while maintaining a grade of around 0.4 oz. gold per ton.

The potential for the additional tonnage exists firstly on the G zone and secondly on the continuation of the F zone west of the gabbro dike. Further substantial tonnage potential exists on the Farney zone.

Turner Lake Property

The main outcome of the 1986 program was that the Turner Lake gold mineralization is associated with a feldspar rich amphibolite horizon that can be followed over a strike length of more than 12,000 feet, varying in width from 15 to 80 feet. The gold mineralization is best developed in a fold structure where it occurs with abundant stockwork-like quartz veins as native gold in association with arsenopyrite and pyrrhotite. In this folded area trench sampling indicates a grade of 0.21 oz. gold per ton over an average width of 18 feet. The structure is steeply plunging to the west. Toward the end of the season it was found that the structure disappears to the east under overburden and surfaces again 600 feet further east. The possibility of continuation under the overburden opens an enormous tonnage potential and will be rigorously examined during the coming season. The grade of 0.21 oz. gold per ton was obtained at surface and the possibility for a marked improvement at depth will be tested by diamond drilling.

The economic potential of the Turner Lake property was greatly enhanced by the discovery of a new gold bearing zone, 1,600 feet east of the main gold zone. This new zone can be fol-

lowed over a strike length of at least 1,500 feet. It is hosted in feldspar rich sediments, enveloped by quartz sericite schist. Gold is present with arsenopyrite and pyrrhotite. Grab samples returned up to approximately 0.8 oz gold per ton. The new zone will be examined in detail during the oncoming field season.

Warner Property

The main gold bearing zone was followed and extended by about 1,100 feet to the northwest to the shore of Kathleen Lake. The geology and magnetic surveys as well as airborne electromagnetic surveys show clearly that the zone is continuous under the lake for approximately 3,500 feet before it reaches the Proterozoic cover. Geophysical data suggest that the zone continues under shallow Proterozoic cover rock.

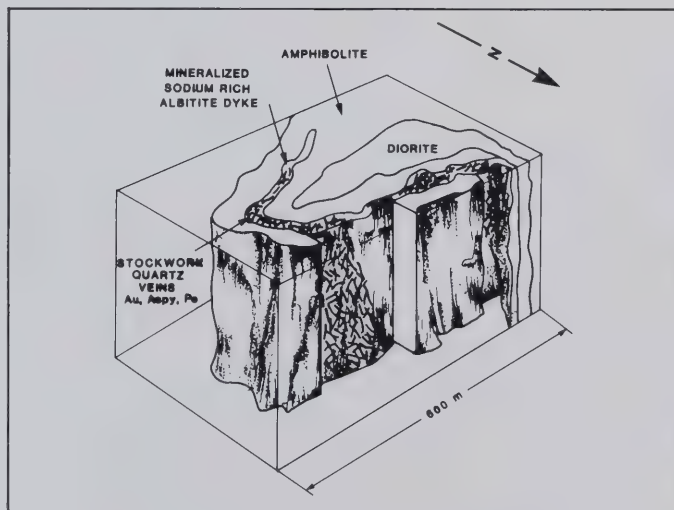
Diamond drill results in 1986 demonstrate improving continuity of width and grade of the main zone as it approaches the lake and the 1987 program of geophysical surveying and diamond drilling on the ice of Kathleen Lake during April of 1987 will test and evaluate this northwestern extension of the zone.

Bear Property

The winter drill program in January/February brought a marked improvement on the C zone where previous drilling had indicated gold values to 0.23 oz. gold per ton over 3.0 feet versus recent results reaching 0.309 oz. gold per ton over 5.7 feet. Also, the new drill results have opened further the possibility of a down plunge extension and improvement on the C zone shoot.

Probably the most significant outcome of the 1987 summer program on the Bear claims is the discovery of a massive sulphide showing in a setting of rhyolitic pyroclastics, tuffs and laminated cherts. Grab samples of gossan material returned up to 5.36% zinc, 1.60% lead, 0.07% copper, 1.40 oz. silver per ton and approximately 0.01 oz. gold per ton. The largely overburden covered showing is accompanied by a sympathetic lead zinc copper soil geochemical anomaly having a 500 foot strike length.

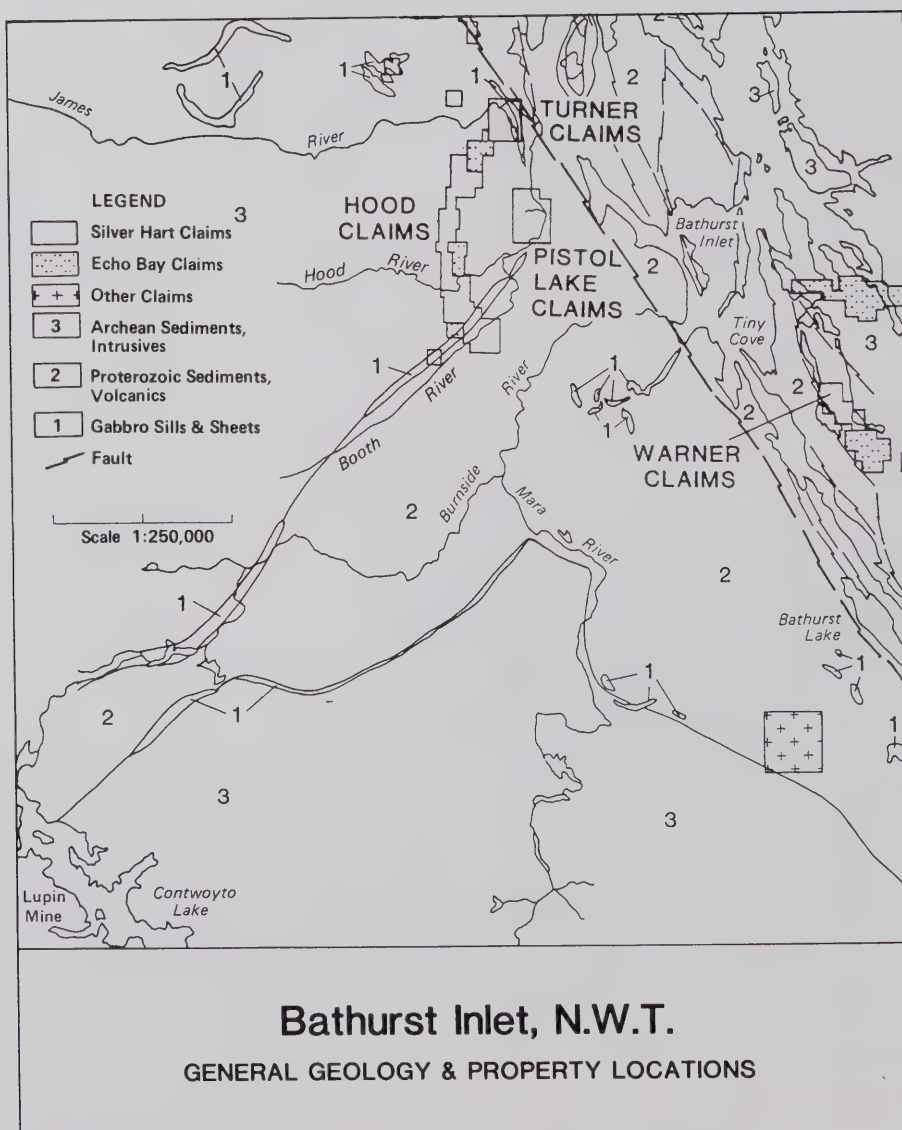
Only minimal follow up work was done in 1986 and further work is warranted. In view of the continuing strong zinc prices this new find may have considerable economic significance and a follow up program for 1987 is under consideration.



Turner Lake — main gold zone, schematic geology



Prospecting on the Bathurst Inlet properties



Bathurst Inlet properties held by Silver Hart Mines

Financial Review

This section is intended to be read in conjunction with the financial statements and notes thereto for the year ended December 31, 1986 which are set out in the following pages.

Financing

The Company is in the development stage; it has no operations at this time and its income is limited to interest received on funds invested and fees received for the management of exploration for others. Such income amounted to \$508,128 in 1986 and \$146,664 in 1985. Exploration activities and property acquisitions carried out since inception have been funded using equity in a combination of private placements and public share offerings. Such fundings aggregated as follows:

1986	\$4,529,250
1985	\$5,035,600
1984	\$1,300,914

The 1986 issues of common shares are set out below:

	<u>Number of Shares</u>	<u>Funds Raised</u>
Common Shares		
Issued for property	272,928	\$1,871,250
Common Shares		
Issued for		
exploration costs	<u>191,392</u>	<u>1,300,000</u>
	464,320	\$3,171,250

In addition, shares to be issued by March 31, 1987 for 1986 exploration costs amount to 226,350 shares, representing \$1,358,000 of funds expended. These and other shares issued for exploration costs are the so-called 'flow-through' shares which were created to give incentive to investors to fund Canadian exploration expense. They have provided much-needed support to the Canadian mining industry.

Expenditures

The Company's policy is to minimize general and administrative costs and apply the great majority of funds raised to exploration and development. Overall expenditures by category made in 1986 were as follows:

Operations (after applying interest and fee income of \$337,609)	\$ 121,320	2.8%
Purchase of Fixed Assets	114,197	2.6%
Exploration and Development Costs	<u>4,119,767</u>	<u>94.6%</u>
TOTAL	\$4,355,284	100.0%

Snow Lake Mines

Snow Lake Mines Ltd. was incorporated under the laws of Alberta as a wholly-owned subsidiary of Silver Hart Mines Ltd. on March 19, 1986. Silver Hart took down 750,000 principal's shares and subscribed for a further 1,000,000 common shares at \$.25 per share. By agreement dated May 24, 1986, as amended, Silver Hart agreed to convey the Snow Lake properties to Snow Lake for \$1,900,000 cash (to be conveyed to the Vendor of the properties on closing) and 1,750,000 common shares. To complete the purchase, Silver Hart delivered to the Vendor 157,978 common shares of Silver Hart and Snow Lake sold to the Vendor 296,296 common shares at issue price of \$1.35 per share. The accounts of Snow Lake Mines Ltd. are now consolidated with Silver Hart Mines Ltd.

In a related matter, Silver Hart purchased 0.75 percentage points of the net smelter returns production royalty outstanding on the Snow Lake property by the issue of 55,000 common shares from treasury, and conveyed it to Snow Lake Mines.

On December 18, 1986, Silver Hart made available to Snow Lake Mines \$300,000 of exploration funding against the issue in 1987 of 176,471 common shares of Snow Lake.

Property Agreements

During the year, Ark La Tex Industries Ltd. supplied \$147,718 to fund exploration at the Sunset Lake properties and have now expended an aggregate of \$328,000 against their requirement of \$700,000 in order to earn a 60% interest. Also in 1986, Vanstates Resources Ltd. funded exploration at the Warner Property plus \$160,000 in cash which was conveyed to the original vendor of the property. Vanstates has now made \$300,000 in cash payments against a total of \$475,000, and has expended an aggregate of \$339,954 in exploration work against their requirement of \$3,000,000 to earn a 60% interest.

Silver Hart Mines Ltd.

(incorporated under the laws of Alberta)
(a corporation in the development stage)

Consolidated Balance Sheet As At December 31, 1986


	1986	1985
CURRENT ASSETS		
Cash and term deposits	\$ 627,967	\$ 1,540,604
Accounts receivable	587,298	505,480
Prepaid expense	37,552	—
Trust assets (note 2)	66,500	—
Promissory notes receivable (note 3)	1,200,000	—
	<u>2,519,317</u>	<u>2,046,084</u>
TRUST ASSETS (note 2)	<u>1,959,580</u>	<u>300,000</u>
FIXED ASSETS (note 4)		
Equipment	197,884	83,687
Less accumulated depreciation	61,169	28,691
	<u>136,715</u>	<u>54,996</u>
OTHER ASSETS		
Marketable securities (quoted market value \$90,000)	<u>25,000</u>	<u>—</u>
DEFERRED EXPLORATION AND DEVELOPMENT COSTS (note 5 and schedule)	<u>12,373,419</u>	<u>6,169,126</u>
	<u>\$17,014,031</u>	<u>\$ 8,570,206</u>
LIABILITIES		
CURRENT LIABILITIES		
Bank loan (note 6)	\$ 700,000	\$ 465,000
Accounts payable and accrued liabilities	401,534	698,863
Payable to affiliated company	119,214	—
Promissory note payable (note 7)	1,075,000	—
	<u>2,295,748</u>	<u>1,163,863</u>
TRUST LIABILITIES (note 2)	<u>2,026,080</u>	<u>300,000</u>
MINORITY INTEREST	<u>2,629,190</u>	<u>—</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 8)	10,849,515	7,678,265
RETAINED EARNINGS (DEFICIT) ACCUMULATED DURING THE DEVELOPMENT STAGE	(514,854)	(396,827)
RETAINED EARNINGS (DEFICIT)	<u>(271,648)</u>	<u>(175,095)</u>
	<u>10,063,013</u>	<u>7,106,343</u>
	<u>\$17,014,031</u>	<u>\$ 8,570,206</u>

CONTINGENT LIABILITY (note 9)

SUBSEQUENT EVENTS (note 10)

Approved By The Board

 Director

 Director

The accompanying footnotes and schedule are an integral part of these financial statements.

Silver Hart Mines Ltd.

(a corporation in the development stage)

Consolidated Statement of Income

	Year Ended December 31		Cumulative Since Inception
	1986	1985	
Income			
Interest	\$ 136,883	\$ 138,642	\$ 444,523
Management fees	356,675	8,022	364,697
Miscellaneous	14,570	—	14,570
	<u>508,128</u>	<u>146,664</u>	<u>823,790</u>
Expenses			
Accounting	32,466	21,160	64,254
Automotive	6,129	21,754	27,883
Depreciation	5,967	3,737	11,834
Insurance	43,889	25,510	73,411
Interest and bank charges	172,011	20,038	198,163
Legal	34,050	40,744	80,314
Listings on exchanges	31,633	16,706	86,395
Miscellaneous	8,649	5,943	18,576
Office	5,965	5,015	15,136
Professional services	20,810	25,500	52,710
Preliminary investigations	21,030	22,658	101,229
Promotion and travel	49,186	47,286	145,885
Rent	8,349	9,441	21,458
Salaries and benefits	143,163	128,063	346,842
Seminars	265	242	3,299
Shareholder communications	28,879	19,944	51,320
Transfer agent	10,506	7,179	21,252
Telephone	6,501	10,908	21,976
	<u>629,448</u>	<u>431,828</u>	<u>1,341,937</u>
	(121,320)	(285,164)	(518,147)
Minority interest	<u>3,293</u>	<u>—</u>	<u>3,293</u>
NET INCOME (LOSS)	<u>\$ (118,027)</u>	<u>\$ (285,164)</u>	<u>\$ (514,854)</u>
Net income (loss) per share	<u>\$ (00.021)</u>	<u>\$ (00.061)</u>	

The accompanying footnotes and schedule are an integral part of these financial statements.

Silver Hart Mines Ltd.

(a corporation in the development stage)

Consolidated Statement of Deficit Accumulated During the Development Stage

Year Ended December 31, 1986

	<u>1986</u>	<u>1985</u>
RETAINED EARNINGS (DEFICIT) AT BEGINNING OF YEAR	\$ (396,827)	\$ (111,663)
Net income (loss)	<u>(118,027)</u>	<u>(285,164)</u>
RETAINED EARNINGS (DEFICIT) AT END OF YEAR	<u>\$ (514,854)</u>	<u>\$ (396,827)</u>

Consolidated Statement of Retained Earnings

Year Ended December 31, 1986

	<u>1986</u>	<u>1985</u>
RETAINED EARNINGS (DEFICIT) AT BEGINNING OF YEAR	\$ (175,095)	\$ (163,287)
Costs related to issue of share capital	<u>(96,553)</u>	<u>(11,808)</u>
RETAINED EARNINGS (DEFICIT) AT END OF YEAR	<u>\$ (271,648)</u>	<u>\$ (175,095)</u>

The accompanying footnotes and schedule are an integral
part of these financial statements.

Silver Hart Mines Ltd.

(a corporation in the development stage)

Consolidated Statement of Changes in Financial Position

	Year Ended December 31		Cumulative Since Inception
	1986	1985	
CASH PROVIDED BY (USED IN)			
OPERATING ACTIVITIES			
Net income (loss)	\$ (118,027)	\$ (285,164)	\$ (514,854)
Depreciation and amortization	5,967	3,737	11,834
Minority interest	(3,293)	—	(3,293)
	(115,353)	(281,427)	(506,313)
Changes in non-cash working capital items (note 14)	(223,569)	(157,702)	(236,503)
	(338,922)	(439,129)	(742,816)
CASH PROVIDED BY (USED IN)			
INVESTMENT ACTIVITIES			
Purchase of marketable securities	(25,000)	—	(25,000)
Purchase of fixed assets	(114,197)	(61,746)	(197,884)
Promissory notes receivable	(1,200,000)	—	(1,200,000)
Exploration and development costs	(7,551,198)	(4,510,522)	(13,491,183)
	(8,890,395)	(4,572,268)	(14,914,067)
CASH PROVIDED BY (USED IN)			
FINANCING ACTIVITIES			
Proceeds from unitholders less amounts not spent on exploration and development	1,299,500	—	1,299,500
Issue of share capital	3,171,250	5,035,600	10,849,515
Promissory note payable	1,075,000	—	1,075,000
Costs relating to issue of share capital	(96,553)	(11,808)	(271,648)
Minority interest	2,632,483	—	2,632,483
	8,081,680	5,023,792	15,584,850
INCREASE (DECREASE) IN CASH	(1,147,637)	12,395	\$ (72,033)
Cash at beginning of year	1,075,604	1,063,209	
CASH (BANK INDEBTEDNESS) AT END OF YEAR	\$ (72,033)	\$ 1,075,604	
Cash (bank indebtedness) comprised of			
Cash and term deposits	\$ 627,967	\$ 1,540,604	
Bank loans	(700,000)	(465,000)	
	\$ (72,033)	\$ 1,075,604	

The accompanying footnotes and schedule are an integral part of these financial statements.

Silver Hart Mines Ltd.

(a corporation in the development stage)

Consolidated Statement of Shareholders' Equity

From Inception Through December 31, 1986

	<u>Shares</u>	<u>Amount</u>	<u>Deficit Accumulated During the Development Stage</u>	<u>Retained Earnings (Deficit)</u>	<u>Total</u>
Common shares					
issued for cash	1,530,000	\$ 229,500	\$ —	\$ —	\$ 229,500
Net income (loss)	<u>—</u>	<u>—</u>	<u>(1,684)</u>	<u>—</u>	<u>(1,684)</u>
Balance, December 31, 1982	1,530,000	229,500	(1,684)	—	227,816
Common shares					
issued for cash	1,557,500	1,112,250	—	—	1,112,250
Costs relating to					
issue of share capital	—	—	—	(61,107)	(61,107)
Common shares issued					
for property	750,000	1	—	—	1
Net income (loss)	<u>—</u>	<u>—</u>	<u>(72,978)</u>	<u>—</u>	<u>(72,978)</u>
Balance, December 31, 1983	3,837,500	1,341,751	(74,662)	(61,107)	1,205,982
Common shares					
issued for cash	500,000	1,050,000	—	—	1,050,000
Costs relating to					
issue of share capital	—	—	—	(102,180)	(102,180)
Common shares issued					
for exploration costs	87,820	250,914	—	—	250,914
Net income (loss)	<u>—</u>	<u>—</u>	<u>(37,001)</u>	<u>—</u>	<u>(37,001)</u>
Balance, December 31, 1984	4,425,320	\$ 2,642,665	\$ (111,663)	\$ (163,287)	\$ 2,367,715

(continued on next page)

The accompanying footnotes and schedule are an integral part of these financial statements.

Silver Hart Mines Ltd.

(a corporation in the development stage)

Consolidated Statement of Shareholders' Equity

From Inception Through December 31, 1986

	<u>Shares</u>	<u>Amount</u>	<u>Deficit Accumulated During the Development Stage</u>	<u>Retained Earnings (Deficit)</u>	<u>Total</u>
Balance, December 31, 1984 (continued from previous page)	4,425,320	\$ 2,642,665	\$ (111,663)	\$ (163,287)	\$ 2,367,715
Common shares issued for property	244,500	1,075,700	—	—	1,075,700
Common shares issued for exploration costs	2,650	5,300	—	—	5,300
Costs relating to issue of share capital	—	—	—	(11,808)	(11,808)
Common shares issued for cash	226,000	474,600	—	—	474,600
Common shares issued for exploration costs	522,000	3,480,000	—	—	3,480,000
Net income (loss)	<u>—</u>	<u>—</u>	<u>(285,164)</u>	<u>—</u>	<u>(285,164)</u>
Balance, December 31, 1985	5,420,470	7,678,265	(396,827)	(175,095)	7,106,343
Common shares issued for property	272,978	1,871,250	—	—	1,871,250
Common shares issued for exploration costs	191,392	1,300,000	—	—	1,300,000
Cost of issuing shares pursuant to public offering	—	—	—	(96,553)	(96,553)
Net income (loss)	<u>—</u>	<u>—</u>	<u>(118,027)</u>	<u>—</u>	<u>(118,027)</u>
Balance, December 31, 1986	<u>5,884,840</u>	<u>\$10,849,515</u>	<u>\$ (514,854)</u>	<u>\$ (271,648)</u>	<u>\$10,063,013</u>

The accompanying footnotes and schedule are an integral part of these financial statements.

Silver Hart Mines Ltd.

(a corporation in the development stage)

Notes to Consolidated Financial Statements

Year Ended December 31, 1986

1. ACCOUNTING POLICIES

a) Accounting authoritative guidelines

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. Financial statements are also in conformity, in all material respects, with accounting principles generally accepted in the United States.

Disclosure of financial information has been provided in accordance with requirements for corporations in the development stage as stipulated by Financial Accounting Standards Board Statement 7.

All figures are reported in Canadian dollars.

b) Basis of presentation

These consolidated financial statements include the accounts of Silver Hart Mines Ltd. and the accounts of its 59.3% owned subsidiary, Snow Lake Mines Ltd.

c) Fixed assets

Fixed assets are recorded at cost. Depreciation is provided using the diminishing balance basis at the following annual rates:

Automotive equipment	30%
Camp and mining equipment	30%
Office equipment	20%

Leasehold improvements are amortized on a straight-line basis over the life of the lease and one renewal period.

d) Marketable securities

Marketable securities are recorded at cost.

e) Deferred exploration and development costs

Exploration and development costs, including costs of acquisition of mineral claims, are capitalized to the date of commercial production and thereafter will be depleted on the unit-of-production basis. The costs of abandoned properties will be charged to income in the year they are abandoned.

f) Cost of acquisition of mineral claims

The cost of acquisition of mineral claims for consideration other than cash will be determined as follows:

- i) for property — at the estimated fair market value of the property exchanged for the mineral claim;
- ii) for shares of the company issued to unrelated parties — at the quoted market price of the shares on the later date of approval for issue by regulatory authorities and actual issue date; and
- iii) for shares of the company issued to related parties — at the estimated fair market value of the mineral claim, if readily determinable, or a nominal value of \$1.

g) Net income per share

Net income per share is calculated using the weighted average number of shares outstanding during the year.

2. TRUST ASSETS AND TRUST LIABILITIES

Pursuant to a private placement the company sold 59.5 units at \$28,000 per unit. Each unit provides the unitholder the right to earn 4,667 common shares of the company if \$28,000 is expended as qualified exploration expenditures on mineral claims of the company. Pursuant to the offering memorandum the company is the agent for the unitholders. Accordingly the unitholders have deposited funds with the company which the company accounts for as a trust liability of \$1,666,000 until the conditions of the offering memorandum have been completed at which time the units will be converted to shares of the company.

Cash and expenditures of these funds are accounted for by the company as trust assets until the total cash has been expended and the units are converted to shares.

In order to fund exploration and development costs, Snow Lake Mines Ltd. agreed to issue 635,000 units at \$1.50 each, each unit consisting of the right to earn one common share of Snow Lake Mines Ltd. and .1574803 of a warrant, each one warrant entitling the holder to purchase one share of Snow Lake Mines Ltd. at a price of \$2.00 per share exercisable until April 20, 1987.

Pursuant to this agreement, Snow Lake Mines Ltd. has expended \$360,080 of exploration and development costs on behalf of the unitholders.

3. PROMISSORY NOTES

	<u>1986</u>	<u>1985</u>
Promissory notes, bearing interest at bank prime plus 1%, secured by and recoverable from ore of TM zone of Hart Property on or before December 31, 1987	\$ 700,000	\$ —
Promissory notes, non-interest bearing, secured by and recoverable from ore of TM zone of Hart Property on or before December 31, 1987	<u>500,000</u>	<u>—</u>
	<u>\$ 1,200,000</u>	<u>\$ —</u>

4. FIXED ASSETS

	<u>1986</u>			<u>1985</u>
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>	<u>Net</u>
Automotive equipment	\$ 32,465	\$ 14,397	\$ 18,068	\$ 18,525
Camp and mining equipment	117,178	35,800	81,378	21,700
Office equipment	38,834	8,870	29,964	12,327
Leasehold improvements	<u>9,407</u>	<u>2,102</u>	<u>7,305</u>	<u>2,444</u>
	<u>\$ 197,884</u>	<u>\$ 61,169</u>	<u>\$ 136,715</u>	<u>\$ 54,996</u>

Depreciation expense for the year is \$32,480 (\$20,977 in 1985).

5. DEFERRED EXPLORATION AND DEVELOPMENT COSTS

Deferred exploration and development costs include expenditures on the following mineral claims.

a) AAH, HOOD and TURNER Claims

These claims were staked and registered by the company.

b) MATE Claims

These claims were acquired by the company from an unrelated party under an option agreement requiring the company to undertake \$98,500 in diamond drilling and make a cash payment of \$130,000. The company has complied with the conditions of the option agreement and the claims have been registered in the name of the company.

c) BEAR Claims

These claims were acquired from the President and Chief Executive Officer of the company for 750,000 common shares. These claims are recorded at a nominal value of \$1 and are subject to the SUNSET LAKE Properties option agreement (see h below).

d) G & T Claims

Pursuant to an agreement dated January 27, 1984, the company, in consideration for \$20,000, received from an unrelated party an option to acquire these claims for \$475,000 plus 100,000 common shares of the company. The initial option which expired January 9, 1985, was extended to January 9, 1987 by additional option extension payments of \$40,000 and \$80,000. The option was further extended from January 9, 1987 to January 9, 1988 by an option extension payment of \$160,000 made in December, 1986.

Payments to extend the option plus the initial payment of \$20,000 will be applied to the purchase price if the option is exercised.

On December 18, 1985, the company granted an option to Vanstates Resources Ltd. to earn up to a 60% interest in the property by providing to the company \$475,000, being the aggregate of cash payments required pursuant to the original option to company, and spending \$3,000,000 on the property as follows:

	Cash To the Company	Recordable Work On Property
i) Payment upon execution	\$ 140,000	\$ —
ii) Payment by December 1, 1986	160,000	—
iii) Spending by December 31, 1986	—	263,000
iv) Payment and spending by December 31, 1987	175,000	387,000
v) Spending by December 31, 1989	—	2,350,000
	<u>\$ 475,000</u>	<u>\$ 3,000,000</u>

Lesser interests can be earned by

- i) making all the above payments and expenditures of recordable work to December 31, 1987, and
- ii) spending recordable work on the property of

\$1,200,000 for a 20% participating interest,
 \$1,900,000 for a 33.3% participating interest, or
 \$2,500,000 for a 46.7% participating interest.

The required payments and expenditures to December 31, 1986 have been made and as of December 31, 1986, Vanstates Resources Ltd. has expended an aggregate of \$339,954 on the property, including management fee of \$30,506 paid to the company.

The company can retain its 40% working interest in the property or can convert it to a 20% net profit interest.

The company is to act as Manager of the exploration work for which it is to receive a fee of 10% of funds expended excluding third party contracts, and a fee of 5% of third party contracts.

e) PISTOL LAKE Claims (previously referred to as GOLD FIELD Claims)

Pursuant to an agreement with an unrelated party dated July 1, 1984 the company was granted an option to acquire these claims by:

- i) expending \$200,000 in qualified exploration expenditures on the claims on or before July 1, 1985, and
- ii) expending in aggregate (which includes the \$200,000 above) \$2,000,000 in qualified exploration expenditures on the claims on or before July 1, 1989.

Acquisition of the claims was subject to a 2% net smelter return interest granted by the Optionor to a third party and a 20% net profit royalty interest in the claims retained by the Optionor. During 1985, the company acquired the 2% net smelter return interest for \$20,000 cash plus 40,000 common shares of the company.

On February 6, 1986 the company acquired the 20% net profit royalty interest and had all claims of the option agreement conveyed to it in exchange for 67,500 common shares of the company. These shares were subsequently acquired by a syndicate of directors of the company for \$10.00 per share, being the market value of the shares on February 6, 1986. The company provided a demand, non-interest bearing loan of \$375,000 to the syndicate to enable the syndicate to acquire the shares. At December 31, 1986 all but \$18,500 of this loan has been repaid.

f) LUCKY Claims

Pursuant to an agreement dated July 5, 1984, the company, in consideration for \$5,000 plus 2,000 common shares of the company, received from an unrelated party an option to acquire these claims for 10,000 common shares of the company.

During 1985, the company issued the 10,000 common shares thereby acquiring the claims. These claims are subject to the SUNSET LAKE Properties option agreement (see h below).

g) HART Claims

The company and Shakwak Exploration Company Limited, in consideration of \$50,000 paid by the company, 100,000 common shares of the company issued to the Optionors, and 25,000 shares of the company issued to Shakwak Exploration Company Limited, received an option to acquire these claims by:

- i) the company expending \$25,000 on or before May 1, 1985 on a road to the claims,
- ii) the company expending \$50,000 on recordable work on the claims on or before August 1, 1985,

- iii) the company paying \$100,000 and Shakwak Exploration Company Limited providing 100,000 of its shares or \$100,000 to the Optionors on or before October 31, 1985,
- iv) the company expending \$200,000 on exploration work on the property on or before October 31, 1985,
- v) the company paying \$100,000 and Shakwak Exploration Company Limited providing 50,000 of its shares or \$75,000 to the Optionors on or before October 31, 1986,
- vi) the company expending \$400,000 on exploration work on the property on or before October 31, 1987,
- vii) the company paying \$1,500,000 on or before October 31, 1987 or \$600,000 on or before October 31, 1987 and providing irrevocable commitments to pay \$600,000 on or before October 31, 1988 and \$600,000 on or before October 31, 1989, and
- viii) the Optionors retaining the ore from an area of the TM Zone being 300 feet long, 100 feet wide and 30 feet deep.

The agreement provides that in the event that either the company or Shakwak Exploration Company Limited default on their obligations, the other party may assume the defaulted obligation to maintain the option agreement.

As at December 31, 1986, all commitments have been met other than the final payment of \$1,500,000 due by October 31, 1987.

Upon exercise of the option pursuant to the preceding conditions, the company will have a 100% interest in the claims and an 80% interest in Net Profits with Shakwak Exploration Company Limited having a carried and non-assessable 20% Net Profit Interest.

Upon the company publicly announcing that it intends to place the claims into commercial production, Shakwak Exploration Company Limited will convert its carried and non-assessable 20% Net Profit Interest to a 20% working interest. At any time up to 180 days after the company's public announcement, the company may acquire up to 10 percentage points of Shakwak Exploration Company Limited's working interest by paying \$100,000 for each percentage point acquired.

On January 17, 1986, the Optionors and the company agreed to the following additional terms to the original option agreement.

On or before September 30, 1987 Silver Hart Mines Ltd. will mine and mill the ore from the area of the TM Zone retained by the Optionors and will pay to the Optionors the "net smelter returns" therefrom on or before December 31, 1987.

Pursuant thereto the company will make a recoverable advance payment of \$1,200,000 payable as follows:

- i) \$350,000 on execution,
- ii) \$500,000 as a non-interest bearing loan to enable the Optionors to acquire 60,000 common shares of the company, and
- iii) \$350,000 on or before May 1, 1986.

These advance payments were made as required.

When the Optionors' ore is sold the company is entitled to recover from the proceeds:

- i) the advance payment of \$1,200,000,
- ii) accrued interest on \$700,000 at the prime interest rate plus 1%, and
- iii) mining and milling costs to a maximum of \$150 per ton, smelter and refining charges, and transportation costs.

If the Optionors have not received the "net smelter returns" less amounts recoverable by the company by December 31, 1987, the company shall pay to the Optionors a penalty of \$25,000 on January 1, 1988 and \$25,000 on the first day of each month thereafter until the Optionors have received all funds due to them. Such payments are liquidating damages and shall not be off-set against any funds otherwise payable by the company to the Optionors.

h) SUNSET LAKE Properties

On July 4, 1985 the company granted an option to Ark La Tex Industries Ltd. (Ark La Tex) on its properties known as Sunset Lake Properties which comprise the BEAR Claims and LUCKY Claims. Ark La Tex can earn a 60% interest in the properties by expending a minimum of \$700,000 of qualified expenditures or a 20% carried interest in the properties by spending \$500,000 of qualified expenditures on or before July 1, 1988. The company is to be the manager of the exploration for which it will receive a management fee of 10% of expenditures, excluding third party contracts.

As of December 31, 1986, Ark La Tex has expended an aggregate of \$328,177 on the properties, including management fees of \$10,433 paid to the company.

i) SNOW LAKE Properties

Pursuant to agreements dated March 25, 1986, as amended May 29, 1986, Snow Lake Mines Ltd. acquired mining properties from its parent company, Silver Hart Mines Ltd., who concurrent with the agreement of March 25, 1986 acquired the Snow Lake Properties from a third party. The mining properties have been transferred to Snow Lake Mines Ltd. pursuant to Subsection 85(1) of the **Income Tax Act** for the following consideration plus costs of acquisition:

Cash on closing		\$ 1,900,000
1,750,000 Shares of Snow Lake Mines Ltd. at a value of \$1.35 per share	\$ 2,362,500	
Less difference between value of shares and consideration paid by Silver Hart Mines Ltd., such consideration being 157,978 shares of Silver Hart Mines Ltd. valued at \$1,000,000	<u>1,362,500</u>	<u>1,000,000</u>
		<u>\$ 2,900,000</u>

Pursuant to agreements dated September 18, 1986, Snow Lake Mines Ltd. acquired 1.50 percentage points of the 3.5% net smelter returns production royalty (Dunlop 3.5% Royalty) as follows:

- i) .75 percentage points from the holder of the net smelter returns production royalty in exchange for 200,000 common shares of Snow Lake Mines Ltd., and
- ii) .75 percentage points from Silver Hart Mines Ltd. in exchange for 1 common share of Snow Lake Mines Ltd.

This transaction effectively reduces the 3.5% Dunlop Royalty to 2.0%. This acquisition has been valued at \$641,250 on the following basis:

- i) \$270,000 being the issue price of the 200,000 common shares of Snow Lake Mines Ltd., and
- ii) \$371,250 being the quoted market value of the 55,000 common shares issued by Silver Hart Mines Ltd. to acquire the .75 percentage points of the net smelter returns production royalty.

In acquiring the mining property, the companies are liable until the occurrence of six months of continuous production, for a pre-production royalty of \$25,000 on each of January 31, 1987, 1988, 1989, 1990 and 1991. The last payment is subject to the requirement that production commence not later than December 31, 1990, or June 30, 1991 if the companies pay \$50,000 to extend the date. If production has not commenced by the required date, the companies will no longer have any interest in the property and must transfer their interest in the property to the holder of the net smelter returns production royalty.

Once production has commenced, Snow Lake Mines Ltd. is liable for a net smelter returns production royalty of:

- i) 2.0% on base and precious metal production on three specific claims, and
- ii) 1.0% on base and precious metal production on the balance of the claims.

6. BANK LOAN

The bank loan which bears interest at bank prime plus 1% is to be repaid from the proceeds of the promissory notes receivable (note 3). The bank loan is secured by

- i) the proceeds of the promissory notes receivable,
- ii) general assignment of book debts, and
- iii) a floating charge debenture on assets and undertakings of the company but limited to \$1,500,000.

Interest on the bank loan is payable monthly.

7. PROMISSORY NOTE PAYABLE

	<u>1986</u>	<u>1985</u>
Promissory note payable to affiliated company, bearing interest at bank prime plus 2%, interest payable monthly, principal due October 31, 1987, unsecured	<u>\$ 1,075,000</u>	<u>\$ —</u>

8. SHARE CAPITAL

Authorized

Unlimited common voting shares without par value

Unlimited first preferred non-voting shares without par value, stated issue price of \$10 per share, to be issued in series, with rights, privileges, restrictions and conditions to be determined by Directors' resolution prior to issue

Unlimited second preferred non-voting shares without par value, stated issue price of \$10 per share, to be issued in series with rights, privileges, restrictions and conditions to be determined by Directors' resolution prior to issue

Issued

	Number Issued	Consideration			
		Total	Cash	Property	Services
Issued at December 31, 1985	5,420,470	\$ 7,678,265	\$ 2,866,350	\$ 4,806,615	\$ 5,300
Issued during the year					
Pursuant to HART Claim agreement (\$8.33 per share)	60,000	500,000	—	500,000	—
Pursuant to private placement	16,872	300,000	300,000	—	—
Pursuant to private placement (\$5.73 per share)	174,520	1,000,000	1,000,000	—	—
Pursuant to Snow Lake agreement (note 5(i))	157,978	1,000,000	—	1,000,000	—
Pursuant to Snow Lake agreement (note 5(i))	55,000	371,250	—	371,250	—
	<u>5,884,840</u>	<u>\$10,849,515</u>	<u>\$ 4,166,350</u>	<u>\$ 6,677,865</u>	<u>\$ 5,300</u>

Share options have been granted as follows:

			Number of Common Shares
Outstanding at December 31, 1985			90,000
Granted			60,000
Expired			<u>(90,000)</u>
Outstanding at December 31, 1986			<u>60,000</u>
Party To Whom Granted	Expiry Date	Price Per Share	Number of Common Shares
Employees	November 13, 1988	\$ 5.25	20,000
Alberta Value Fund Inc.	November 12, 1988	5.25	<u>40,000</u>
			<u>60,000</u>

Of the options to the employees, only options to 10,000 common shares can be exercised prior to November 13, 1987. The company is in the process of obtaining regulatory approval for the options to employees and Alberta Value Fund Inc.

9. CONTINGENT LIABILITY

The company is contingently liable as guarantor of a bank loan of an affiliated company in the amount of \$1,350,000 which is partially reduced by the promissory note payable to the affiliated company (note 7).

10. SUBSEQUENT EVENTS

- a) Subsequent to December 31, 1986, the company entered into an agreement with Westax Precious Metals (1987) Ltd. to provide financing for further exploration of the mining properties. Pursuant to this agreement, the company will incur a minimum of \$275,000 and a maximum of \$1,000,000 in qualified exploration expenditures which it will renounce to Westax Precious Metals (1987) Ltd. As consideration for the company renouncing these expenditures, Westax Precious Metals (1987) Ltd. will subscribe for common shares of the company of equal value. The number of common shares issued will be equal to the quotient of the amount expended on exploration divided by the issue price per share. The issue price per share is to be 125% of the market price of the company's shares for each of the twenty days immediately preceding the fourth day before the closing of the agreement.
- b) Subsequent to December 31, 1986, the Directors approved a private placement offering to provide financing for further exploration of the mining properties. While all details and approvals have not been finalized or obtained, it is intended that the company will incur a maximum of \$1,500,000 in qualified exploration expenditures which it will renounce to the subscribers of this offering. As consideration for the company renouncing these expenditures, the subscribers will acquire a maximum of 200,000 common shares of the company for a maximum of \$1,500,000.
- c) Subsequent to December 31, 1986, Snow Lake Mines Ltd. entered into an agreement with Westax Precious Metals (1987) Ltd. to provide financing for further exploration of its mining property. Pursuant to this agreement, Snow Lake Mines Ltd. will incur a minimum of \$150,000 and a maximum of \$500,000 in qualified exploration expenditures which it will renounce to Westax Precious Metals (1987) Ltd. As consideration for the company renouncing these expenditures, Westax Precious Metals (1987) Ltd. will subscribe for common shares of the Snow Lake Mines Ltd. of equal value. The number of common shares issued will be equal to the quotient of the amount expended on exploration divided by the issue price per share. The issue price per share is to be 125% of the average market price for the shares for each of the twenty days immediately preceding the fourth day before the closing of the agreement.

11. INCOME TAXES

The company has losses carried forward for income tax purposes in the amount of \$981,263. These losses are deductible against future taxable incomes as follows:

<u>Deductible until</u>	<u>Amount</u>
December 31, 1987	\$ 1,684
December 31, 1990	133,217
December 31, 1991	138,025
December 31, 1992	708,337
	<u>\$ 981,263</u>

Losses carried forward of \$420,700 have been reflected in these financial statements by offsetting deferred tax credits of the same amount. The income tax effect of the balance of these losses carried forward has not been reflected in these consolidated financial statements.

Snow Lake Mines Ltd. has losses carried forward for income tax purposes in the amount of \$752,572. These losses are deductible against future taxable incomes until December 31, 1993. The income tax effect of the losses carried forward has not been reflected in these consolidated financial statements.

12. RELATED PARTY TRANSACTIONS

During the year the companies undertook the following transactions with related entities.

<u>Entity</u>	<u>Nature of Transaction</u>
Company related to President and Secretary-Treasurer	\$1,750,412 was paid for drilling and equipment with \$119,214 being included in accounts payable and \$1,075,000 being included in promissory note payable. \$89,864 was paid as interest on the promissory note payable.
Public company in which President and Secretary-Treasurer are directors and own 6.1% of outstanding shares	\$10,433 was received as management fees from that company.

Public company in which President and the Secretary-Treasurer own 9.6% of outstanding shares and the Secretary-Treasurer is a director

\$30,506 was received as management fees from that company.

Syndicate owned by majority of Directors

Pursuant to the reacquisition of 67,500 common shares from the Optionor, \$18,500 of the loan of \$375,000 remains outstanding.

Shareholders

Pursuant to the agreement with unitholders (note 2) \$169,500 has been received by the company as management fees.

13. REMUNERATION OF DIRECTORS AND OFFICERS

The aggregate remuneration paid to officers during the year was \$116,500 (\$100,000 in 1985). No remuneration was paid to directors in their capacity as directors.

14. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	<u>1986</u>	<u>1985</u>	<u>Cumulative Since Inception</u>
Accounts receivable	\$ 412,088	\$ (39,575)	\$ 360,958
Prepaid expense	(37,552)	—	(37,552)
Accounts payable and accrued liabilities	(598,105)	(118,127)	(559,909)
	<u>\$ (223,569)</u>	<u>\$ (157,702)</u>	<u>\$ (236,503)</u>

Auditors' Report

To The Shareholders of
Silver Hart Mines Ltd.

We have examined the consolidated balance sheet of Silver Hart Mines Ltd. and subsidiary company (corporations in the development stage) as at December 31, 1986 and December 31, 1985 and the consolidated statements of income, shareholders' equity and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The companies, as development stage companies, capitalize costs incurred to explore and develop their mineral properties until the mineral properties are explored to a point where it has been determined that the mineral properties are capable of being economically developed through

assessable exploration results or measurable reserves. Until this determination has been made, it is impractical to assess the realization of exploration and development costs capitalized to the mineral properties.

In our opinion, except for effects, if any, of the inability to assess realization of exploration and development costs capitalized as referred to in the previous paragraph, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1986 and December 31, 1985 and the results of their operations and changes in their financial position for the years then ended in accordance with generally accepted accounting principles of Canada applied on a basis consistent with that of the preceding year.

Kouri Berezan Heinrichs

Edmonton, Alberta
March 23, 1987

Chartered Accountants

Silver Hart Mines Ltd.

(a corporation in the development stage)

Consolidated Schedule of Deferred Exploration and Development Costs Year Ended December 31, 1986

	1986							1985		
	MATE Claims	PISTOL LAKE Claims	LARRY Claims	HART Claims	HOOD Claims	TURNER Claims	SNOW LAKE Claims	Total	Total	Cumulative Since Inception
Acquisition	\$ —	\$ 4,043	\$ —	\$ 137,284	\$ —	\$ —	\$ 3,576,266	\$ 3,717,593	\$ 1,157,334	\$ 5,119,928
Exploration										
Assays	—	237	1,127	57,880	2,151	6,434	7,873	75,702	58,358	167,338
Depreciation	—	2,937	—	17,713	—	2,938	2,925	26,513	17,240	49,335
Diamond drilling	—	68,644	—	172,871	520	205	162,548	404,788	1,599,390	2,760,015
Expediting and transportation	10,118	59,772	11,286	84,107	82,472	63,683	17,729	329,167	420,628	864,373
Exploration access	—	—	—	1,682,723	2,724	—	—	1,685,447	465,197	2,150,644
Food and accommodations	1,643	6,533	—	38,632	6,631	4,340	5,416	63,195	19,070	93,383
General	—	5,806	—	4,240	948	485	318	11,797	4,746	19,347
Geophysical surveys	—	53,562	—	54,589	44,500	43,445	6,538	202,634	11,102	260,584
Legal	—	—	—	—	—	—	—	—	19,768	21,866
Linecutting	—	—	—	12,990	—	—	9,416	22,406	15,260	37,666
Management services	4,200	33,293	2,700	204,098	29,472	26,172	20,496	320,431	—	320,431
Photographs, printing and drafting	—	2,843	—	3,819	6,020	2,380	15,203	30,265	9,157	41,732
Salaries, wages and benefits	—	42,590	—	370,760	44,853	47,786	64,385	570,374	260,578	939,190
Site access	—	—	—	91,031	—	—	—	91,031	550,567	641,598
Staking and claim maintenance	16,029	832	7,045	111,861	386	—	—	136,153	46,400	268,920
Supplies	773	14,861	—	128,736	5,968	7,071	18,968	176,377	79,284	276,649
	32,763	291,910	22,158	3,036,050	226,645	204,939	331,815	4,146,280	3,576,745	8,913,071
	32,763	295,953	22,158	3,173,334	226,645	204,939	3,908,081	7,863,873	4,734,079	14,032,999
Less exploration costs included above in trust for unitholders	32,200	155,250	20,700	764,750	175,950	150,650	360,080	1,659,580	—	1,659,580
	\$ 563	\$ 140,703	\$ 1,458	\$ 2,408,584	\$ 50,695	\$ 54,289	\$ 3,548,001	\$ 6,204,293	\$ 4,734,079	\$12,373,419

The AAH, BEAR, G & T, and LUCKY Claims in which the company has an interest have not been included herein, as no expenditures were made on these claims during the year ended December 31, 1986. Expenditures on these claims in previous years are included in "Cumulative Since Inception".



Hart Silver Property — Camp Site



Wilberforce Falls, N.W.T.



Turner Lake: main gold showing



Silver Hart's areas of interest

Directors and Management

Alvin Harter Edmonton, Alberta	President, Chief Executive Officer and Director
John McCutcheon Edmonton, Alberta	Vice-President, Secretary Chief Financial Officer and Director
Steve Dudelzak Calgary, Alberta	Director
George Grumieaux New York, New York	Director
Robert Lee Vancouver, B.C.	Director
Walter Protsack Rocky Mountain House, Alberta	Director
Richard Ray Los Angeles, California	Director
Jack Sheckter Edmonton, Alberta	Director
Eckart Buhlmann Edmonton, Alberta	Chief Geologist

Transfer Agents

Registrar and Transfer Agent is Canada Trust Company at principal offices in Calgary, Vancouver and Toronto.

Auditors

Kouri Berezan Heinrichs
Edmonton, Alberta

Corporate Offices

209, 320 Sioux Road
Sherwood Park, Alberta
T8A 3X6

Market Price of Common Shares

The common shares of the company are traded on the Vancouver and Alberta Stock Exchanges under the symbol SVM and on NASDAQ under the symbol SVMHF. Trading began on May 15, 1984.

	High	Low
1984	2.10	1.00
1985	19.125	1.85
1986 First Quarter	14.00	8.00
Second Quarter	13.50	6.00
Third Quarter	7.50	4.00
Fourth Quarter	6.625	4.00

No dividends have been paid on the common shares.

Annual Meeting of Shareholders

The Company's Annual Meeting of Shareholders will be held on Thursday, June 4, 1987 at the Chateau Lacombe, 10111 Bellamy Hill, Edmonton, Alberta.

AR06



1987

ANNUAL REPORT

Composite picture of the exposed gold bearing No. 3 zone, Snow Lake, Manitoba. The main part of the zone to the right typically grades 0.33 ounces of gold per ton over a width of 26.0 feet.



CORPORATE PROFILE

Silver Hart Mines Ltd. was founded as an Alberta corporation in December, 1982. It went public in April, 1984 on the Vancouver and Alberta Stock Exchanges and on January 2, 1985 began trading on NASDAQ in the United States.

Since inception, the Company's strategy has been to maintain a small, highly professional team which can locate and stake or acquire gold and silver properties in Canada and bring them into production. Silver Hart currently holds and expects to bring into production in 1989 a high grade silver property in the Yukon Territory (Hart silver property). It also holds and is exploring three large gold properties of the iron formation hosted type in the Bathurst Inlet area of the North West Territories and an important gold deposit near Snow

Lake, Manitoba. Its land position in aggregate exceeds 219,000 acres. It is expected that the Snow Lake property will be brought into production in 1990.

Silver Hart owns a majority position in Porta-Test Inc., an Edmonton-based major supplier of wireline and well test services and manufacturer of process facilities for the oil and gas industry. Its high pressure separators and related lines are sold on a world-wide basis.

As of December 31, 1987 there were 6,661,608 common shares outstanding. During 1987, a total of 642,000 shares were traded on the Vancouver Stock Exchange and a total of 126,555 shares on NASDAQ. The trading symbol in Canada is SVM and in the United States is SVMHF.



FINANCIAL HIGHLIGHTS

Years Ended December 31

	1987	1986	1985	1984	1983
Total Assets	\$31,677,516	\$17,014,031	\$8,570,206	\$2,824,038	\$1,395,813
Funds Used in Exploration Development including funds expended on behalf of unit-holders	\$ 3,107,963	\$ 4,177,470	\$4,716,839	\$1,111,490	\$ 451,109
Shareholders' Equity	\$12,076,719	\$10,063,013	\$7,106,343	\$2,367,715	\$1,341,751

PRESIDENT'S REPORT

Silver Hart's aggressive exploration program carried out in 1987 added substantially to our reserves at the Company's properties. The extent of our current mineral inventory is impressive and may be summarized as follows:

Location	Current Tonnage	Oz/Ton Average	Current Ounces	Price/Oz CDN	Metal Value CDN
Snow Lake	807,000	.266 gold	214,662	\$552.00	\$118,493,424
Pistol Lake	540,374	.406 gold	219,392	\$552.00	\$121,104,384
Turner Lake	1,300,000	.156 gold	202,800	\$552.00	\$111,945,600
Hart Silver	116,000	56.4 silver	6,550,000	\$ 7.89	\$ 51,679,500
TOTAL VALUES CONTAINED IN RESERVES					\$403,222,908

Calculations for the tonnages shown are based on widths varying from 5 feet minimum to 50 feet. Metal values tabulated do not provide for mine and mill capital needs and operating charges and are for comparative purposes only. They indicate clearly the excellent investment opportunity in our stock.

Hart Silver Property

A recent report on the Hart Silver Property prepared by the Company's independent consultant gives estimated reserves of 50,000 tons in open cuts grading 61 ounces of silver per ton, and 66,000 tons underground grading 53 ounces of silver per ton. He points out that so far "only a small portion of the currently held claims have had detailed evaluation and the potential for locating new (mineralized) areas appears excellent."

Our intention is to proceed with a mine and mill development as soon as funding is available on the premise that reserves can be replaced by an exploration program continued each season.

Snow Lake Gold Property

The 1987 exploration program at this exciting property was aggressive and effective. Approximately 71,490 feet of diamond drilling was completed, primarily in the No. 3 and Birch

Zones, and a 325 foot surface extension of the No. 3 Zone was opened up by removing an average of 30 feet of overburden. As the photographs in this report indicate, the No. 3 is a strongly-mineralized structure. Channel samples taken at 10 foot intervals and at widths up to 32.4 ft. gave average grades in excess of 0.31 oz. of gold per ton over an average of 11.95 feet.

The internationally-known consulting firm of Pincock Allen & Holt of Denver, Colorado prepared a geological report on the property in August, 1987 which confirmed our internal reserve estimates. In November, 1987, we had a pre-feasibility report prepared by A.D. McCutcheon in association with AMS (American Mine Services) of Denver which examined appropriate mining methods, process design, mill components, etc. for a 500 to 600 tons per day producing gold mine. We are currently seeking the most suitable method of funding this development.

Pistol Lake/Turner Lake

These two properties, located on the west side of Bathurst Inlet, were staked by the Company in 1985 and first exploration was done in that year. In 1986 an extensive airborne electromagnetic survey was carried out over these and associated claims and many interesting anomalies were found. Diamond drilling in 1985 and 1986 at Pistol Lake provided indicated



Alvin Harter

reserves of 540,000 tons averaging 0.4 oz of gold per ton. In 1987, widely-spaced diamond drilling at Turner Lake gave evidence of a major deposit with excellent widths. Further exploration is required to seek out higher grades at Turner Lake and to expand the known tonnage at Pistol Lake.

The high risk exploration has been done on these properties and we are currently considering the possible entry of a large mining company as our partner in this development.

Other Properties

The Sunset Lake property, located 70 miles east of Yellowknife, was optioned to Ark La Tex Industries in 1985 with Ark La Tex required to expend \$700,000 on exploration work to earn a 60% interest. The area has heated up considerably since two unrelated companies, Aber Resources Ltd. and Hemisphere Developments Ltd., made what appears to be a major massive sulphide discovery with high silver values near the eastern boundary of our property. We are currently carrying out a large diamond drilling program for Ark La Tex and there are good indications that much of the deposit is on our property. When the program is completed, Silver Hart will own 40% direct interest, and as manager and operator of the project receives a 10% management fee.

The Warner property at Bathurst Inlet was also optioned out in 1985 and the optionor spent approximately \$900,000 on exploration and acquisition costs. Results were erratic and the property has been dropped at no cost to Silver Hart.

New properties are the lifeblood of an exploration and development company such as Silver Hart and we have several under review at the present time.

Corporate

In April, 1987, Silver Hart formed Porta-Test Inc. as a subsidiary to purchase the assets of the

predecessor company, Porta-Test Systems Ltd., and reorganize its operations. The purchase was financed by Porta-Test Inc. through the private sale of common shares. Porta-Test provides well test services along with the manufacture and sale of specialized processing equipment to the oil and gas industry.

Subsequently, it acquired Solid Wireline Services Ltd., the largest wireline service company in Western Canada, and the wireline division of Baker Oil Tools Ltd. so that Porta-Test's services subsidiary now offers integrated oil and gas well testing, wireline and down-hole tool services. It has the largest market share in Canada in these service functions.

Porta-Test's manufactured products and process facilities are based on original design and development work, much of it patented, and are sold on a world-wide basis. We look forward to continued growth and increasing profitability in this subsidiary.

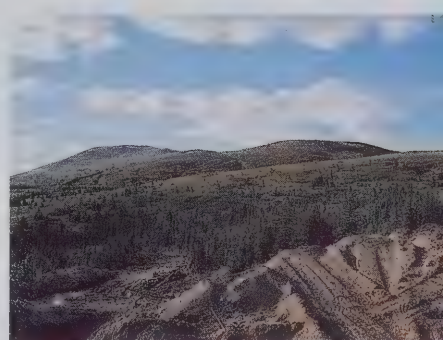
In March, 1988, we announced signing of a preliminary underwriting agreement with Morgan-Gundy International S.A. of Panama whereby Morgan-Gundy undertook to market \$10,000,000 U.S. funds of participating preferred shares of our subsidiary which will own and operate the Hart silver property. After provision for a sinking fund and costs of the issue, we expect to realize about \$6,000,000 of net proceeds. On receipt of funds, we will proceed to bring the silver mine into production.

We thank our shareholders for their continued confidence and welcome new shareholders.

On Behalf Of The Board of Directors



ALVIN HARTER
President and Chief Executive Officer



ABOVE:
View of the silver property near
Rancheria, Yukon Territory.

BELOW:
Access road to the Snow Lake
gold property, Manitoba.

This view of the Hart Silver property shows extensive exploration activity in a rich geological section of silver bearing veins.



Photograph by C. B.

GEOLOGICAL PROFILE

Snow Lake Gold Property, Manitoba

The property is located two miles from the mining town of Snow Lake in Manitoba. With an ore reserve approaching 1 million tons in an extremely favourable infrastructure setting our interest in this property is an important asset.

The ore reserves on the Snow Lake property stand at 807,000 tons grading 0.266 oz. gold per ton in the proven and probable categories. The reserves are contained in the No. 3 and Birch zones.

Both the No. 3 and the Birch zone offer good potential for additional reserves and a diamond drilling program has been laid out for the purpose of defining such reserves. An underground exploration development program has been planned in detail and it will supply the basis for a full feasibility study.

Surface stripping and sampling of the No. 3 zone over a strike length of 325 feet gave an average grade of 0.318 oz. gold per ton which compares well with the average grade of 0.32 oz. gold per ton for the ore above the 400 foot level.

Regional exploration work of the 1987 field season turned up numerous new gold showings and alteration zones and has further enhanced the exceptional exploration potential of

our property. The possibilities to add substantial ore reserves away from the known zones with a moderate exploration effort are very good. Exploration work during the summer of 1987 confirmed the potential for added surface-near ore in the Kim zone which occurs 300 feet south of the No. 3 zone. Good potential for substantial surface-near reserves was also shown to exist on the Birch and the Boundary zones. In addition, the recently discovered Drift, Saddle and Angus zones are considered as top priority drill targets for new No. 3 zone type ore bodies.

Hart Silver Property, Yukon Territory

The Hart Silver property, located 100 miles west of Watson Lake, Yukon Territory covers approximately 75,000 acres. It has a series of silver deposits which are steeply dipping veins that strike northeast.

The proven and probable mineral reserve to date amounts to 107,000 tons grading 29.94 ounces silver per ton, and approximately 1.4 per cent lead and 3.8 per cent zinc.

During the summer of 1987 an extensive work program was completed including diamond drilling and trenching. Five new surface-near silver mineralized zones were found.

This is a very encouraging development and bodes well for future work. Drilling confirmed the downward extension of the TM zone to a depth of at least 175 feet.

Metallurgical tests indicate that the ore responds well and recoveries are expected to be good.

Work to date indicates that rigorous exploration may replace depleted reserves on an ongoing basis for a number of years.

It has been proposed to mine the veins from the surface to a depth of 90 to 120 feet using backhoe trenching. Much of this tonnage is open pitable by the proposed method.

An independent consultant has estimated the proven and probable reserves on the Hart property at 84,000 tons grading 58.5 ounces silver per ton. This estimate is based on the assumption, that the diamond drilling results do not reflect the true grade of the deposits and that the true grade may be substantially higher than the drill indicated grade.

Pistol Lake Gold Property, North West Territories

The Pistol Lake property is located 10 kilometres west of the Bathurst Inlet, 580 kilometres northeast of Yellowknife, N.W.T. The property consists of 16 claim blocks covering 18,000 acres.

To date a combined geological resource in the F and G zones of 540,000 tons was calculated grading 0.406 ounces of gold per ton. The zones are open and additional drilling is expected to increase this tonnage substantially.

On the gold bearing iron formations some 25,000 feet of strike remain to be examined in detail and excellent potential for large zones of gold mineralization exists.

A 12,000 foot diamond drilling program is proposed with the objective of delineating a geological reserve of two to three million tons of ore containing one million ounces of gold on the F, G, and Farney zones.

Turner Lake Gold Property, North West Territories

The Turner Lake property was staked by Silver Hart Mines to cover a number of gold and copper-nickel showings situated in Archean metasediments 17 kilometres from the Bathurst Inlet and 590 kilometres northeast of Yellowknife, N.W.T. The property includes 6 claim blocks covering approximately 15,500 acres.

The host to the main gold deposit is a gabbro sill varying in width from five to 50 feet. Gold is associated with pyrrhotite, arsenopyrite, ilmenite, loellingite, chalcopyrite and quartz. Mineralization is best developed in a wide fold structure that dips steeply to the north.

The results of the 1987 diamond drilling program are summarized in the following table.

Turner Lake: Results of 1987 Diamond Drilling				
Drill Hole Number	From (feet)	To (feet)	Width (feet)	oz. Gold per ton
TP87-01	40.4	50.3	9.9	0.108
	134.9	141.0	6.1	0.078
TP87-02	68.6	85.3	21.8	0.035
TP87-03	110.7	139.3	28.6	0.083
TP87-04	178.0	207.1	29.1	0.375
TP87-05	81.2	87.8	6.6	0.072
TP87-07	346.5	389.0	42.5	0.062
TP87-08	252.0	258.9	6.9	0.005
TP87-09	202.9	218.5	15.6	0.817
TP87-10	144.1	160.1	16.0	0.048
TP87-11	107.0	157.1	50.1	0.119
TP87-13	537.8	552.6	14.8	0.099
TP87-14	456.9	469.9	13.0	0.102
TP87-15	405.1	411.2	6.1	0.027

The main gold zone at Turner Lake will be further evaluated in 1988. The future work will aim at determining the extent of the mineralized zone along strike and its grade. Results to date indicate a strike length in excess of 1800 feet and the mineralized zone offers the potential for a large ore body.

A \$500,000 program is under consideration for 1988 aiming to indicate a reserve of economic significance and to establish the grade of the deposit.



Portion of No. 3 zone exposure, Snow Lake, Manitoba.

Bear Silver Zinc Lead Property, North West Territories

The Bear property is located 110 kilometres north east of Yellowknife. It is under option to Ark La Tex Industries Ltd. to earn 60 per cent of this property with Silver Hart holding the remaining 40 per cent.

In the fall of 1986 a polymetallic sulphide zone (M-zone) was discovered on the Bear #2 claim. A sample of weathered sulphide mineralized material from the M-zone assayed 270 ppb Au, 1.40 oz Ag, 6.76 per cent combined zinc/lead and 0.07 per cent copper. A soil geochemical survey indicated an anomaly parallel to regional strike approximately 450 feet long.

Following the discovery of a new polymetallic massive sulphide (zinc, silver, lead, antimony, copper) deposit adjacent to the Bear claim group the property was revisited in December of 1987 and additional samples taken

from the M-zone. Well mineralized pyroclastic felsic material was encountered and a series of samples was submitted for assaying. Results were strongly encouraging and a program of geophysical surveys and diamond drilling was recommended.

The two deposits are believed to be separated by a northeast trending regional fault which moved the Aber portion of the deposit approximately one mile to the northeast along the fault from where the M-zone is situated now.

Diamond drill results strongly confirm the presence of major shoots of highgrade massive sulfide mineralization on the Bear property.



ABOVE:
Exposed part of the No. 3 zone, Snow Lake
gold property, Manitoba.

BELOW:
Exploration camp on the Hart silver property,
Yukon Territory.

M-Zone, Sunrise Lake, Beaulieu River, N.W.T. Results of Diamond Drilling

DH-NO	FROM (ft)	TO (ft)	WIDTH (ft)	Au oz/t	Ag oz/t	Cu %	Pb %	Zn %
88-01	144.3	152.8	8.5	0.052	7.53	0.08	5.01	10.20
	224.1	230.1	6.0	0.026	5.38	--	--	--
88-03	275.0	291.8	16.8	0.050	3.46	0.07	2.30	5.99
88-04	339.8	372.5	32.7	0.021	1.28	0.12	1.47	2.87
	446.4	457.0	10.6	0.034	22.97	0.05	2.77	4.88
88-08	616.4	667.9	51.5	0.028	7.74	0.06	3.64	7.86
88-10	387.8	452.9	65.1	0.024	8.49	0.05	3.91	8.73
includes	391.7	423.5	31.8	0.031	9.10	0.08	5.00	12.83
and	435.3	448.1	12.8	0.017	11.52	0.02	3.63	9.60

The results suggest the possibility of a major ore zone. Assays for several holes are pending. Drilling was suspended in early May to await break-up. We expect to resume diamond drilling in July.

Financing

This section is intended to be read in conjunction with the financial statements and notes thereto for the year ended December 31, 1987 which are set out in the pages following.

Silver Hart is in the development stage; no operations are undertaken directly by the corporation and its income is limited to interest received on funds invested and fees received for the management of exploration for others.

Exploration activities and property acquisitions carried out since inception of the Corporation have been funded by the issue of common shares in a public offering in 1984 and in a series of private placements, most of them using 'flow-through' shares. The Corporation was founded in December, 1982 and equity financings to date are summarized in the table below.

Consolidated Results

The financial statements are consolidated to reflect Silver Hart's 52.6% ownership in Snow Lake Mines Ltd. and 62.5% ownership in Porta-Test Inc. Snow Lake Mines is also in the development stage and is in most ways a parallel operation to Silver Hart so that the effect of the consolidation enlarges but does not change the nature of Silver Hart's financial statements. Porta-Test Inc. is an operating company in the process facilities manufacturing and service sectors of the oil and gas industry with substantial assets and revenues

which, on consolidation, materially change Silver Hart's financial statements from those of previous years.

Porta-Test Inc., which began operations on May 1, 1987, purchased the assets and operations of the predecessor company, Porta-Test Systems Ltd. which had been placed in receivership by its bankers. Porta-Test Inc. reorganized and re-staffed the purchased operations and, during the 8 months to December 31, 1987, made two material acquisitions in the services sector. Its financial results for the initial 8 month period showed revenues of \$11,376,000 and a net loss of \$908,000.

Subsequent Events

On March 28, 1988, the corporation announced signing of an underwriting agreement covering the private placement of up to \$10,000,000 in U.S. funds of preferred shares to be issued by a subsidiary of Silver Hart. This subsidiary will hold all assets and rights relating to the Hart silver property and purchasers of the preferred shares will receive a royalty interest in production from that property. After provision for a sinking fund, commissions and costs of the issue, the Corporation expects to receive net proceeds of approximately \$6,000,000.

	Shares	Amount
1982	1,530,000	\$ 229,500
1983	2,307,500	1,112,251
1984	587,820	1,300,914
1985	995,150	5,035,600
1986	464,370	3,171,250
1987	776,768	3,438,500
Balance		
Dec. 31, 1987	6,661,608	\$14,288,015

FINANCIAL REVIEW

INCOME AND EXPENDITURES

Considering only mining-related activities, income and administrative expenses of the Corporation for the last 3 years are shown in the following table:

Year Ended December 31

	1987	1986	1985	Cumulative Since Inception
Income: Interest	\$ 80,255	\$ 136,883	\$ 138,642	\$ 508,370
Management Fees & Miscellaneous	233,038	371,245	8,022	628,694
	313,293	508,128	146,664	\$1,136,064
Expenses: Interest and Bank Charges	212,361	172,011	20,038	391,878
All Other	480,988	457,437	411,790	1,603,106
	693,349	629,448	431,828	1,994,984
Net Administrative Expenditures	380,056	121,320	285,164	858,920
Exploration & Development Costs	\$3,107,963	\$4,177,470	\$4,716,839	\$13,564,871

Net administrative expenditures expressed as a percentage of total funds raised (and expended) have varied between 1.9% and 12.9% which gives evidence of the Company's commitment to keeping overhead costs low and maximizing the amount of money applied directly to exploration.

AUDITORS' REPORT

To The Shareholders of
Silver Hart Mines Ltd.

We have examined the consolidated balance sheet of Silver Hart Mines Ltd. and subsidiary companies as at December 31, 1987 and December 31, 1986 and the consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Silver Hart Mines Ltd. and its subsidiary company, Snow Lake Mines Ltd., as development stage companies, capitalize costs incurred to explore and develop their mineral properties until the mineral properties are explored to a point where it has been determined that the mineral properties are capable of being economically developed through assessable exploration results or measurable reserves. Until this determination has been made, it is impractical to assess the realization of exploration and development costs capitalized to the mineral properties.

In our opinion, except for effects, if any, of the inability to assess realization of exploration and development costs capitalized as referred to in the previous paragraph, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1987 and December 31, 1986 and the results of their operations and changes in their financial position for the years then ended in accordance with generally accepted accounting principles of Canada applied on a basis consistent with that of the preceding year.

Kouri Berezan Heinrichs

Edmonton, Canada
April 28, 1988

Chartered Accountants

SILVER HART MINES LTD.

(Incorporated under the laws of Alberta)

CONSOLIDATED BALANCE SHEET

as at December 31, 1987

	1987	1986
ASSETS		
CURRENT ASSETS		
Cash and term deposits	\$ 17,302	\$ 627,967
Cash in escrow (note 3)	539,000	—
Accounts receivable (note 4)	3,970,551	587,298
Inventories	746,991	—
Prepaid expense	157,248	37,552
Trust assets	—	66,500
Promissory notes receivable (note 5)	1,200,000	1,200,000
	<u>6,631,092</u>	<u>2,519,317</u>
TRUST ASSETS	<u>—</u>	<u>1,959,580</u>
FIXED ASSETS (note 6)		
Equipment	7,648,167	197,884
Less accumulated depreciation	1,677,041	61,169
	<u>5,971,126</u>	<u>136,715</u>
INVESTMENTS (note 7)	<u>334,606</u>	<u>25,000</u>
DEFERRED EXPLORATION AND DEVELOPMENT COSTS (note 8)	<u>18,740,692</u>	<u>12,373,419</u>
	<u>\$31,677,516</u>	<u>\$17,014,031</u>
LIABILITIES		
CURRENT LIABILITIES		
Bank loans (note 9)	\$ 1,815,000	\$ 700,000
Accounts payable and accrued liabilities	3,127,525	401,534
Income taxes payable	90,000	—
Payable to affiliated company	—	119,214
Loan payable (note 10)	200,000	—
Promissory notes payable (note 11)	2,275,000	1,075,000
Principal due within one year on long-term debt	1,033,682	—
	<u>8,541,207</u>	<u>2,295,748</u>
TRUST LIABILITIES	<u>—</u>	<u>2,026,080</u>
LONG-TERM DEBT (note 12)	<u>4,358,004</u>	<u>—</u>
MINORITY INTEREST	<u>6,701,586</u>	<u>2,629,190</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 13)	14,288,015	10,849,515
RETAINED EARNINGS (DEFICIT)	(2,211,296)	(786,502)
	<u>12,076,719</u>	<u>10,063,013</u>
	<u>\$31,677,516</u>	<u>\$17,014,031</u>
CONTINGENT LIABILITY (note 14)		
COMMITMENTS (note 15)		
SUBSEQUENT EVENTS (note 16)		

Approved By The Board

ALVIN HARTER



Director

JOHN McCUTCHEON



Director

The accompanying footnotes are an integral part of these financial statements.

SILVER HART MINES LTD.

CONSOLIDATED STATEMENT OF INCOME

Year Ended December 31, 1987

	1987	1986
Manufacturing and testing		
Sales	\$11,375,607	\$ —
Cost of sales	<u>10,192,375</u>	<u>—</u>
Gross Profit	<u>1,183,232</u>	<u>—</u>
Less operating expenses		
Selling and administrative	1,789,710	—
Interest	185,590	—
Interest on long-term debt	<u>115,642</u>	<u>—</u>
	<u>2,090,942</u>	<u>—</u>
Net manufacturing and testing operating income (loss)	<u>(907,710)</u>	<u>—</u>
Mining		
Revenue	<u>242,877</u>	<u>508,128</u>
Less operating expenses		
Administrative	554,985	553,990
Interest	203,861	172,011
Loss on abandoning mineral properties	<u>267,217</u>	<u>—</u>
	<u>1,026,063</u>	<u>726,001</u>
Net mining operating income (loss)	<u>(783,186)</u>	<u>(217,873)</u>
Income (loss) before income taxes and minority interests	(1,690,896)	(217,873)
Income taxes	<u>90,000</u>	<u>—</u>
Income (loss) before minority interests	(1,780,896)	(217,873)
Minority interests	<u>356,102</u>	<u>3,293</u>
NET INCOME (LOSS)	<u>\$ (1,424,794)</u>	<u>\$ (214,580)</u>
Net income (loss) per share	<u>\$ (00.234)</u>	<u>\$ (00.038)</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year Ended December 31, 1987

	1987	1986
RETAINED EARNINGS (DEFICIT) AT BEGINNING OF YEAR	\$ (786,502)	\$ (571,922)
Net income (loss)	<u>(1,424,794)</u>	<u>(214,580)</u>
RETAINED EARNINGS (DEFICIT) AT END OF YEAR	<u>\$ (2,211,296)</u>	<u>\$ (786,502)</u>

The accompanying footnotes are an integral part of these financial statements.

SILVER HART MINES LTD.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended December 31, 1987

	1987	1986
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net income (loss)	\$ (1,424,794)	\$ (214,580)
Items not involving cash		
Minority interests	(356,102)	(3,293)
Depreciation	480,229	5,967
Loss on abandoning of mineral properties	267,217	—
Gain on sale of fixed assets	(29,319)	—
	(1,062,769)	(211,906)
Changes in non-cash working capital items (note 20)	2,042,209	(223,569)
	979,440	(435,475)
CASH PROVIDED BY (USED IN) INVESTMENT ACTIVITIES		
Acquisition of inventories	(2,702,670)	—
Acquisition of fixed assets	(6,715,564)	(114,197)
Acquisition of non-cash working capital	(762,330)	—
Acquisition of investments	(309,606)	(25,000)
Receivable from affiliates	(116,916)	—
Exploration and development costs	(4,918,205)	(7,551,198)
Promissory notes receivable	—	(1,200,000)
	(15,525,291)	(8,890,395)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Proceeds from unitholders for exploration and development costs	—	1,299,500
Conversion of units for exploration and development costs to share capital	(1,299,500)	—
Issue of share capital	3,438,500	3,171,250
Promissory notes payable	1,200,000	1,075,000
Long-term debt	5,391,686	—
Loan payable	200,000	—
Minority interests	4,428,500	2,632,483
	13,359,186	8,178,233
INCREASE (DECREASE) IN CASH	(1,186,665)	(1,147,637)
Cash (bank indebtedness) at beginning of year	(72,033)	1,075,604
CASH (BANK INDEBTEDNESS) AT END OF YEAR	\$ (1,258,698)	\$ (72,033)
Cash (bank indebtedness) comprised of		
Cash and term deposits	\$ 17,302	\$ 627,967
Cash in escrow	539,000	—
Bank loans	(1,815,000)	(700,000)
	\$ (1,258,698)	\$ (72,033)

The accompanying footnotes are an integral part of these financial statements.

SILVER HART MINES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 1987

1. ACCOUNTING POLICIES

a) Accounting authoritative guidelines

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The consolidated financial statements are also in conformity, in all material respects, with accounting principles generally accepted in the United States.

All figures are reported in Canadian dollars.

b) Basis of presentation

These consolidated financial statements include the accounts of Silver Hart Mines Ltd. and the accounts of the following subsidiaries.

Company	% Ownership
Snow Lake Mines Ltd.	52.6%
Porta-Test Inc.	62.5%
Solid Wireline Services	a partnership of two wholly owned subsidiary companies of Porta-Test Inc.

c) Inventories

Raw materials are valued at the lower of average cost and replacement cost. Finished products and work in progress are valued at the lower of cost and net realizable value.

d) Fixed assets

Fixed assets are recorded at cost. Depreciation is provided using the indicated bases at the following annual rates:

	Depreciation bases	Rate
Building	Straight-line	4%
Manufacturing equipment	Straight-line	12.5%
Testing equipment	Straight-line	20%
Office and other equipment	Diminishing balance and straight-line	10% to 30%
Automotive equipment	Diminishing balance and straight-line	30%
Camp and mining equipment	Diminishing balance	30%
Wireline equipment	Straight-line	10%
Wireline automotive equipment	Straight-line	15%

e) Investments

Investments are recorded at cost.

f) Deferred exploration and development costs

Exploration and development costs, including costs of acquisition of mineral claims, are capitalized to the date of commercial production and thereafter will be depleted on the unit-of-production basis. The costs of abandoned properties will be charged to income in the year they are abandoned.

g) Cost of acquisition of mineral claims

The cost of acquisition of mineral claims for consideration other than cash will be determined as follows:

- for property — at the estimated fair market value of the property exchanged for the mineral claim;
- for shares of the company issued to unrelated parties — at the quoted market price of the shares on the later date of approval for issue by regulatory authorities and actual issue date; and
- for shares of the company issued to related parties — at the estimated fair market value of the mineral claim, if readily determinable, or a nominal value of \$1.

h) Revenue

Profits on large manufacturing and service contracts are recorded on the percentage of completion basis. Profits on other contracts are recorded on the completed contract basis.

i) Net income per share

Net income per share is calculated using the weighted average number of shares outstanding during the year.

j) Conversion of foreign currencies

Assets, liabilities, revenues and expenses have been translated to the currency of Canada using the following exchange rates.

- i) Current assets and accounts payable and accrued liabilities — at the rate in effect on the balance sheet date;
- ii) Fixed assets — at the rate in effect on the date the asset was acquired;
- iii) Long-term debt — at the rate in effect on the date the proceeds from the debt were received by the company;
- iv) Revenue and expenses — at the average rate in effect during the period of operations.

2. ACQUISITIONS

a) Porta-Test Inc.

Effective May 1, 1987 Porta-Test Inc. acquired inventories, work in progress, fixed assets, patents and 100% of the common shares of Porta-Test Systems, Inc. for \$5,861,970 and commenced operations on that date.

b) Solid Wireline Services

Effective August 1, 1987 two wholly owned subsidiary companies of Porta-Test Inc. acquired 100% of the partnership interest in Solid Wireline Services for \$2,525,244.

The above acquisitions have been accounted for by the purchase method and earnings therefrom have been included from the effective dates of acquisition. The acquisition cost was allocated and funded as indicated below.

	Porta-Test Inc.	Solid Wireline Services	Total
Net assets acquired at assigned values			
Cash (bank indebtedness)	\$ 10,100	\$ (241,850)	\$ (231,750)
Non-cash working capital	2,947,370	762,330	3,709,700
Fixed assets	3,576,850	2,755,904	6,332,754
Long-term debt	(672,350)	(751,140)	(1,423,490)
	<u>\$5,861,970</u>	<u>\$2,525,244</u>	<u>\$8,387,214</u>
Funding for assets acquired			
Cash	\$ —	\$ 200,000	\$ 200,000
Bank loans	1,200,000	1,525,244	2,725,244
Private placement of share capital	2,440,000	—	2,440,000
Promissory notes (note 11)	—	800,000	800,000
Payable to vendor, secured by assignment of receivables resulting from delivery of work in progress acquired	<u>2,221,970</u>	<u>—</u>	<u>2,221,970</u>
	<u>\$5,861,970</u>	<u>\$2,525,244</u>	<u>\$8,387,214</u>

3. CASH IN ESCROW

Cash in escrow was released subsequent to December 31, 1987 pursuant to the issue of shares in accordance with the agreements related thereto.

4. ACCOUNTS RECEIVABLE

	1987	1986
Trade	\$2,871,748	\$ 587,298
Unbilled revenue	511,994	—
Government grant receivable	397,168	—
Shareholder's loan	20,000	—
Receivable from affiliated companies	<u>169,641</u>	<u>—</u>
	<u>\$3,970,551</u>	<u>\$ 587,298</u>

On January 28, 1988, Porta-Test Inc. received a grant of \$397,168 pursuant to the Canadian Government's Western Transportation Industrial Development Program for assistance in acquiring manufacturing assets and creating employment.

The grant has been included in the accounts receivable as at December 31, 1987 and applied to reduce the cost of fixed assets as follows:

Buildings	\$ 214,471
Manufacturing equipment	<u>182,697</u>
	<u>\$ 397,168</u>

5. PROMISSORY NOTES RECEIVABLE

	1987	1986
Promissory notes, bearing interest at bank prime plus 1%, secured by and recoverable from ore of TM zone of Hart Property (see note 8(g) below)	\$ 700,000	\$ 700,000
Promissory notes, non-interest bearing, secured by and recoverable from ore of TM zone of Hart Property (see note 8(g) below)	<u>500,000</u>	<u>500,000</u>
	<u>\$1,200,000</u>	<u>\$1,200,000</u>

6. FIXED ASSETS

	1987			1986
	Cost	Accumulated Depreciation	Net	Net
Land	\$ 262,500	\$ —	\$ 262,500	\$ —
Buildings	1,279,020	30,880	1,248,140	—
Manufacturing equipment	732,698	59,109	673,589	—
Testing equipment	760,313	100,320	659,993	—
Office and other equipment	478,072	102,113	375,959	37,269
Automotive equipment	174,865	46,351	128,514	18,068
Camp and mining equipment	152,335	62,481	89,854	81,378
Wireline equipment	1,067,749	705,829	361,920	—
Wireline automotive equipment	<u>2,740,615</u>	<u>569,958</u>	<u>2,170,657</u>	<u>—</u>
	<u>\$7,648,167</u>	<u>\$1,677,041</u>	<u>\$5,971,126</u>	<u>\$ 136,715</u>

7. INVESTMENTS

	1987	1986
Shares		
Vanstates Resources Ltd. 150,000 shares (quoted market value \$37,500; \$90,000 in 1986)	\$ 25,000	\$ 25,000
Capital Markets West Inc. 11% interest	100	—
Hartz Equities Inc. 28% interest	48,000	—
Private mutual fund units		
Alberta Value Fund Inc. 18% interest (quoted marked value \$87,280)	141,506	—
Bear Syndicate 9% interest (quoted market value \$21,556)	70,000	—
Deposit on acquisition of Baker Oil Tools equipment	<u>50,000</u>	<u>—</u>
	<u>\$334,606</u>	<u>\$ 25,000</u>

8. DEFERRED EXPLORATION AND DEVELOPMENT COSTS

Deferred exploration and development costs include expenditures on the following mineral claims.

a) AAH, HOOD and TURNER Claims

These claims were staked and registered by the company.

b) MATE Claims

These claims were acquired by the company from an unrelated party by paying \$228,500 pursuant to an option agreement. These claims have been registered in the name of the company.

c) BEAR Claims

These claims were acquired in 1983 from the President and Chief Executive Officer of the company for 750,000 common shares. These claims are recorded at a nominal value of \$1 and are subject to the SUNSET LAKE PROPERTIES option agreement (see h below).

d) G & T Claims

These claims have been abandoned by the company. The total exploration and development costs expended on these claims of \$206,517 have been written off in the year.

e) PISTOL LAKE Claims

Pursuant to agreements with unrelated parties the company acquired these claims by:

- i) expending required expenditures of \$2,000,000,
- ii) paying \$20,000 cash plus issuing 40,000 common shares of the company in 1985, and
- iii) issuing 67,500 common shares of the company in 1986.

f) LUCKY Claims

These claims have been abandoned by the company. The total cost of these claims of \$60,700 has been written off in the year.

g) HART Claims

The company and Ark La Tex Industries Ltd. (Ark La Tex), assignee of Shakwak Exploration Company Limited, hold interest in these claims. Pursuant to exercising the option, the company has a 100% interest in the claims and an 80% interest in Net Profits with Ark La Tex having a carried and non-assessible 20% Net Profit Interest. The company has expended the following amounts in acquiring the claims:

1985		
Cash		\$ 150,000
100,000 Common shares to Optionors		200,000
25,000 Common shares to Skakwak Exploration Company Limited		65,000
		<u>415,000</u>
1986		
Cash		100,000
1987		
Cash	\$ 600,000	
Promissory notes (note 12)	<u>1,200,000</u>	<u>1,800,000</u>
		<u>\$2,315,000</u>

The company has also incurred \$5,987,135 in qualified exploration expenditures. Pursuant to the original option agreement, the Optionors retain the ore from an area of the TM Zone being 300 feet long and 30 feet deep.

Upon the company publicly announcing that it intends to place the claims into commercial production, Ark La Tex will convert its carried and non-assessable 20% Net Profit Interest to a 20% working interest. At any time up to 180 days after the company's public announcement, the company may acquire up to 10 percentage points of the working interest of Ark La Tex by paying \$100,000 for each percentage point acquired.

On January 17, 1986, the Optionors and the company agreed to the following additional terms to the original option agreement:

On or before September 30, 1987 Silver Hart Mines Ltd. was to mine and mill the ore from the area of the TM Zone retained by the Optionors and pay to the Optionors the "net smelter returns" therefrom on or before December 31, 1987.

Pursuant thereto the company made a recoverable advance payment of \$1,200,000 to the Optionors. When the Optionors' ore is sold the company is entitled to recover from the proceeds:

- i) the advance payment of \$1,200,000 (note 5),
- ii) accrued interest on \$700,000 at the prime interest rate plus 1%, and
- iii) mining and milling costs to a maximum of \$150 per ton, smelter and refining charges, and transportation costs.

The net proceeds should then be paid to the Optionors by December 31, 1987. The amending agreement stipulates that if the Optionors have not received the "net smelter returns" from the company by December 31, 1987, the company is required to pay to the Optionors a penalty of \$25,000 on January 1, 1988 and \$25,000 on the first day of each month thereafter until the Optionors have received all funds due to them. Such payments are to be liquidating damages and shall not be offset against any funds otherwise payable by the company to the Optionors.

As the company has not commenced mining of the property and the Optionors did not receive the "net smelter returns" from the company by December 31, 1987, the Optionors have notified the company of the default and are demanding payment of the monthly penalties. The company contends that it is not in default. As the outcome of this dispute is not yet determinable, the company's liability for the said penalty payments has not been reflected in these financial statements.

h) SUNSET LAKE Properties

On July 4, 1985 the company granted an option to Ark La Tex on its properties known as SUNSET LAKE Properties which comprise the BEAR Claims and the LUCKY Claims. Ark La Tex can earn a 60% interest in the properties by expending a minimum of \$700,000 of qualified expenditures on the properties or a 20% carried interest in the properties by expending \$500,000 of qualified expenditures on or before July 1, 1988. The company is to be the manager of the exploration for which it will receive a management fee of 10% of expenditures, excluding third party contracts.

If the properties are placed into production the company will receive a management fee of 10% of net profits as manager of operations.

As of December 31, 1987, Ark La Tex had expended an aggregate of \$348,317 on the properties, including management fees of \$12,264 paid to the company.

i) SNOW LAKE Properties

Pursuant to agreements dated March 25, 1986, as amended May 29, 1986, Snow Lake Mines Ltd. acquired mining properties from its parent company, Silver Hart Mines Ltd., who concurrent with the agreement of March 25, 1986 acquired the Snow Lake Properties from a third party. The mining properties have been transferred to Snow Lake Mines Ltd. pursuant to Subsection 85(1) of the *Income Tax Act* for the following consideration plus costs of acquisition:

Cash on closing		\$1,900,000
1,750,000 Shares of Snow Lake Mines Ltd. at a value of \$1.35 per share	\$2,362,500	
Less difference between value of shares and consideration paid by Silver Hart Mines Ltd., such consideration being 157,978 shares of Silver Hart Mines Ltd. valued at \$1,000,000	<u>1,362,500</u>	<u>1,000,000</u>
		<u>\$2,900,000</u>

Subsequently the company acquired 1.5 percentage points of a 3.5% net smelter returns production royalty for 200,001 common shares of Snow Lake Mines Ltd. being valued at \$641,250.

In acquiring the mining property, the companies are liable until the occurrence of six months of continuous production, for a pre-production royalty of \$25,000 on each of January 31, 1987 through 1991. The last payment is subject to the requirement that production commence not later than December 31, 1990 or June 30, 1991 if the companies pay \$50,000 to extend the date. If production has not commenced by the required date, the companies will no longer have any interest in the property and must transfer their interest in the property to the holder of the net smelter returns production royalty.

Once production has commenced, Snow Lake Mines Ltd. is liable for a net smelter returns production royalty of:

- i) 2.0% on base and precious metal production on three specific claims, and
- ii) 1.0% on base and precious metal production on the balance of the claims.

j) KICKING HORSE Claims

On November 1, 1987 the company entered into an option agreement with an unrelated party to acquire the KICKING HORSE Claims by:

- i) paying U.S. \$10,000 on execution of the agreement (which was executed on January 6, 1988),
- ii) expending U.S. \$50,000 in qualified exploration expenditures on or before November 1, 1988 and U.S. \$1,100,000 on or before November 1, 1992, and
- iii) paying U.S. \$20,000 each on November 1, 1988 and November 1, 1989 and U.S. \$25,000 each on November 1, 1990 and November 1, 1991.

k) KOBAR Claims

In December, 1987 Snow Lake Mines Ltd. acquired an option for 100% interest in a number of mineral claims in The Pas Mining District for the following consideration:

- i) 25,000 common shares of Snow Lake Mines Ltd. upon execution,
- ii) 25,000 common shares of Snow Lake Mines Ltd. on December 31, 1988, and
- iii) 50,000 common shares of Snow Lake Mines Ltd. on December 31, 1989.

The Optionor will retain a 15% Net Profits Royalty Interest being equal to 15% of the net profits derived from the property.

9. BANK LOANS

	1987	1986
Bank loan to be repaid from proceeds of promissory notes receivable (note 5), also secured by a floating charge debenture on assets of Silver Hart Mines Ltd. up to \$1,500,000 and a general assignment of book debts of Silver Hart Mines Ltd.	\$ 700,000	\$ 700,000
Bank loan secured by a fixed and floating charge debenture on assets of Porta-Test Inc. up to \$5,000,000 and a general assignment of book debts of Porta-Test Inc.	900,000	—
Bank loan secured by a general assignment of book debts and inventories of Solid Wireline Services and unlimited guarantee of Porta-Test Inc.	<u>215,000</u>	<u>—</u>
	<u>\$1,815,000</u>	<u>\$ 700,000</u>

Interest on above bank loans is payable monthly at prime plus 1%.

10. LOAN PAYABLE

The \$200,000 loan made to Porta-Test Inc. was converted to share capital by issuing 100,000 common shares of Porta-Test Inc. subsequent to December 31, 1987.

11. PROMISSORY NOTES PAYABLE

	1987	1986
Note payable to affiliated company, bearing interest at prime plus 2% payable monthly, unsecured, due October 31, 1987	\$1,075,000	\$1,075,000
Notes payable, pursuant to acquisition of Solid Wireline Services partnership interest by subsidiary companies of Porta-Test Inc., bearing interest at 8% payable semi-annually from September 1, 1988, secured by debenture over the partnership assets subordinate to the first \$3,500,000 charge by the partnership's banks, due on demand not prior to April 29, 1989	800,000	—
Note payable to a shareholder, bearing interest at prime plus 2% payable monthly, due April 30, 1988	200,000	—
Note payable to a shareholder, bearing interest at prime plus 2% payable monthly, due April 30, 1988	<u>200,000</u>	<u>—</u>
	<u>\$2,275,000</u>	<u>\$1,075,000</u>

The note payable to an affiliated company is past due and now payable on demand. The notes payable to the two shareholders are each secured by a second charge over 1,200,000 common shares of Porta-Test Inc. Each noteholder is also given the right to receive an additional \$20,000 in cash or to purchase 25,000 common shares of the company at \$3.50 per share by April 30, 1988.

As the shareholders have not exercised their option to acquire shares, the company will be required to pay the additional \$20,000 cash on repayment of the promissory notes.

12. LONG-TERM DEBT

	1987	1986
Promissory notes payable to original Optionors of the HART claims (note 8(g)) pursuant to irrevocable commitments upon exercising of the option, secured by the HART property, non-interest bearing, due October 31, 1989	\$1,200,000	\$ —
Bank term loan, bearing interest at prime plus 1.5%, repayable by monthly installments of \$14,865 including principal and interest, secured by a \$5,000,000 debenture on all assets of Porta-Test Inc. and a general assignment of book debts of Porta-Test Inc.	1,166,604	—
RoyNat term loans, repayable by monthly payments of \$26,000 plus interest at RoyNat's average cost of short-term funds plus 2.5%, secured by a first fixed and floating charge on all assets of Solid Wireline Services and guaranteed by a \$1,000,000 debenture on assets of Porta-Test Inc.	2,204,159	—
Note payable by monthly installments of \$2,248 including interest at 9.5%, secured by assets of Porta-Test Systems, Inc., due November, 1988	25,622	—
Mortgage on land and building of Porta-Test Systems, Inc., repayable by monthly installments of \$1,600 including interest at 6.625%, due April, 2006	200,235	—
Note payable to an officer of Porta-Test Systems, Inc., bearing interest at prime rate, unsecured, due on demand but intended to be repaid from future profits of Porta-Test Systems, Inc.	595,066	—
	5,391,686	—
Less principal due within one year	1,033,682	—
	<u>\$4,358,004</u>	<u>\$ —</u>

Principal repayments on long-term debt are approximately \$981,000 for 1989 and \$381,000 for each of the three years thereafter.

13. SHARE CAPITAL

AUTHORIZED

Unlimited common voting shares without par value

Unlimited first preferred non-voting shares without par value, stated issue price of \$10 per share, to be issued in series, with rights, privileges, restrictions and conditions to be determined by Directors' resolution prior to issue

Unlimited second preferred non-voting shares without par value, stated issue price of \$10 per share, to be issued in series with rights, privileges, restrictions and conditions to be determined by Directors' resolution prior to issue

ISSUED

Common Shares	Number Issued	Consideration			
		Total	Cash	Property	Services
Issued at December 31, 1986	5,884,840	\$10,849,515	\$4,166,350	\$6,677,865	\$5,300
Issued during the year					
Pursuant to private placement agreement to renounce qualified exploration expenditures (\$6.00 per share)	226,363	1,358,000	1,358,000	—	—
Pursuant to private placement (\$5.00 per share)	154,500	772,500	772,500	—	—
Pursuant to private placement (\$3.25 per share)	94,700	308,000	308,000	—	—

Pursuant to private placement agreement to renounce qualified exploration expenditures (\$3.32 per share)	<u>301,205</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u> </u>	<u> </u>
Issued at December 31, 1987	<u>6,661,608</u>	<u>\$14,288,015</u>	<u>\$7,604,850</u>	<u>\$6,677,865</u>	<u>\$5,300</u>

The 154,500 common shares and 166,716 of the 301,205 common shares were issued subsequent to December 31, 1987 but have been reflected in these financial statements as issued at December 31, 1987 on the basis of cash received, the agreements between the entities, treasury orders and the subsequent issue of the shares.

Share options have been granted as follows:

			Number of Common Shares
Outstanding at December 31, 1986			60,000
Granted in 1987			<u>75,000</u>
Outstanding at December 31, 1987			<u>135,000</u>

Party To Whom Granted	Expiry Date	Price Per Share	Number of Common Shares
Shareholders	April 30, 1988	\$3.50	50,000
Employees	November 13, 1988	5.25	20,000
Alberta Value Fund Inc.	November 12, 1988	5.25	40,000
Employee	May 12, 1989	6.00	<u>25,000</u>
			<u>135,000</u>

The company has obtained regulatory approval for share options of 25,000 shares granted in 1987. To date, none of the options have been exercised.

14. CONTINGENT LIABILITY

The company is contingently liable as guarantor of a bank loan of an affiliated company in the amount of \$1,350,000 which is partially reduced by the promissory note payable to the affiliated company (note 11).

15. COMMITMENTS

In connection with the acquisition of the partnership interest in Solid Wireline Services, Porta-Test Inc. is committed to pay financing fees of \$110,000 upon the final disbursement of loan proceeds and loan administration fees of \$250,000 by annual installments of \$50,000 from May 15, 1988.

Due to the delayed closing of the acquisition, Porta-Test Inc. is liable to pay penalties and interest up to April 29, 1988 totalling \$202,850.

The above amounts have not been reflected in these financial statements, except for \$96,000 of the penalties and interest which have been accrued to December 31, 1987.

16. SUBSEQUENT EVENTS

a) Offering of rights to subscribe for common shares

On March 9, 1988 the company issued each holder of common shares on the record date of March 17, 1988 the right to subscribe for one common share at \$2.50 per share for every ten common shares held. The rights expired on March 31, 1988 and the offering resulted in subscriptions for a total of 23,477 shares for \$58,692.

b) Financing for a mine on the HART Property

On March 31, 1988 the company entered into a preliminary agreement with Morgan Gundy International, S.A., in underwriting a private placement that will raise necessary capital for the company to establish a mining operation on the HART Property (note 8(g)). To facilitate the placement of securities, the company will form a subsidiary company to own and operate the mine. The HART Property will be transferred to this subsidiary company at a value yet to be determined. The new subsidiary company will offer to issue a minimum of 75,000 and a maximum of 100,000 preferred shares each with the following rights, privileges and restrictions:

i) a stated value of U.S. \$100,

- ii) 10% cumulative dividends, guaranteed by a sinking fund, for a period of 10 years, and non-cumulative thereafter,
- iii) one vote,
- iv) a non-detachable royalty unit representing a fractional undivided interest in annual royalty income which will be determined as 50% of the profit before taxes and depreciation but after debt service costs and U.S. \$1.1 million, and
- v) redeemable by the issuer in whole or in part at the stated value plus, if redeemed within the first 10 years, a premium of 5% plus one-half of a percent for each year before the tenth anniversary of the share issue.

As a guarantee of the cumulative dividends, the issuer will be required to invest a portion of the gross proceeds from the share issue in a sinking fund with a custodial financial institution. The sinking fund requirement is as follows:

	Gross Share Issue	Estimated Sinking Fund	Net Proceeds Before Commissions
Maximum	US \$10,000,000	US \$4,631,935	US \$5,368,065
Minimum	7,500,000	3,187,500	4,312,500

The underwriting commissions will be 5% of the gross proceeds placed in Panama and 6.5% of gross proceeds on overseas sales with aggregate not exceeding 25% of total proceeds.

Pursuant to the preliminary underwriting agreement, the company will pay to the underwriter an expense allowance of U.S. \$37,500 and will issue to the underwriter for each of the said preferred shares sold a warrant for 2.5 common shares of Silver Hart Mines Ltd. exercisable at \$3.60 per share within five years.

c) Asset acquisition

On January 19, 1988 Porta-Test Inc. acquired certain wireline and production equipment of Baker Oil Tools Canada. Pursuant to the same agreement the company became an exclusive agent to manufacture and sell Baker Wireline Tools. For the equipment and operating agreement the company paid Baker Oil Tools Canada the sum of \$900,000.

The purchase was funded by:

i) Shareholder's loan	\$200,000
ii) Bank loan	600,000
iii) Cash from operations	100,000
	<u>\$900,000</u>

The shareholder's loan bears interest at prime plus 1% and is repayable by July 16, 1988.

The original bank loan has been re-financed by an additional term loan from RoyNat with the same interest rate and security as described in note 12. The monthly principal repayments will be increased by \$6,000.

d) Bank financing

On February 10, 1988, Porta-Test Inc. received a request from its Bank to transfer its banking business by June 1, 1988. As at December 31, 1987 a total of \$2,066,604 of loans was outstanding and due to the Bank. Management is of the opinion that alternative banking can be arranged at comparable terms prior to June 1, 1988.

17. INCOME TAXES

a) Deferred exploration and development costs

Pursuant to provisions of the *Income Tax Act*, the company and Snow Lake Mines Ltd. have renounced certain amounts they have incurred as deferred exploration and development expenditures, thereby reducing amounts they might otherwise have deducted against taxable incomes of future years. The following summary indicates amounts deductible by the companies for income tax purposes.

	Cumulative Since Inception	
	Silver Hart Mines Ltd.	Snow Lake Mines Ltd.
Amounts renounced to shareholders	\$ 8,161,414	\$ 1,452,500
Renounced expenditures transferred	(531,000)	531,000
Amounts deductible by the company as direct expenses	91,989	207,816
Amounts deductible by the company as exploration and development expenses against taxable incomes of future years	4,453,187	2,993,015
Excess of book value over roll-over value for income tax purposes	—	2,003,748

Amounts on properties that have been abandoned	(267,217)	—
	<u>\$11,908,373</u>	<u>\$ 7,188,079</u>
Deductible exploration and development expenses		
Incurred	\$ 4,453,187	\$ 2,993,015
Claimed and included in loss carried forward for income tax purposes	<u>1,173,410</u>	<u>1,503,609</u>
Available as deductions against future taxable incomes	<u>\$ 3,279,777</u>	<u>\$ 1,489,406</u>

b) Loss carried forward for income tax purposes

The company and its Canadian subsidiary companies have losses carried forward for income tax purposes available for deduction against future taxable incomes as follows:

Deductible Until Year Ending December 31	Silver Hart Mines Ltd.	Snow Lake Mines Ltd.	Porta-Test Inc.
1990	\$ 133,217	\$ —	\$ —
1991	138,025	—	—
1992	725,577	—	—
1993	438,303	1,052,572	—
1994	<u>852,933</u>	<u>804,397</u>	<u>627,900</u>
	<u>\$2,288,055</u>	<u>\$1,856,969</u>	<u>\$ 627,900</u>

Losses carried forward of \$974,757 and \$1,710,049 of Silver Hart Mines Ltd. and Snow Lake Mines Ltd. respectively have been reflected in these financial statements by offsetting deferred tax credits of the same amount. The income tax effect of the balance of these losses carried forward has not been reflected in these financial statements.

18. RELATED PARTY TRANSACTIONS

During the year the company undertook the following transactions with related entities.

Entity	Nature of Transaction
Company related to President and Secretary-Treasurer	\$132,786 was paid as interest on the \$1,075,000 promissory note payable
Public company in which President and Secretary-Treasurer are directors and own 6.1% of outstanding shares	\$12,264 was received as management fees from that company.
Public company in which President and Secretary-Treasurer own 9.6% of outstanding shares and the Secretary-Treasurer is a director	\$28,729 was received as management fees from that company.

19. REMUNERATION OF DIRECTORS AND OFFICERS

The aggregate remuneration paid to officers during the year was \$305,500 (\$116,500 in 1986). No remuneration was paid to directors in their capacity as directors.

20. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	1987	1986
Accounts receivable	\$ (2,471,508)	\$ 412,088
Inventories	2,017,679	—
Prepaid expenses	(84,606)	(37,552)
Accounts payable and accrued liabilities	2,490,644	(598,105)
Income taxes payable	<u>90,000</u>	<u>—</u>
	<u>\$ 2,042,209</u>	<u>\$ (223,569)</u>



Silver Hart's areas of interest

CORPORATE INFORMATION

Transfer Agents

Registrar and Transfer Agent is Canada Trust Company at principal offices in Calgary, Vancouver and Toronto.

Auditors

Kouri Berezan Heinrichs
Edmonton, Alberta

Corporate Offices

5710 - 17 Street
Edmonton, Alberta
T6P 1S4

Market Price of Common Shares

The common shares of the company are traded on the Vancouver and Alberta Stock Exchanges under the symbol SVM and on NASDAQ under the symbol SVMHF. Trading began on May 15, 1984.

	High	Low
1984	2.10	1.00
1985	19.125	1.85
1986	14.00	4.00
1987 First Quarter	7.00	4.10
Second Quarter	6.75	4.50
Third Quarter	5.50	3.50
Fourth Quarter	4.50	2.50

No dividends have been paid on the common shares.

Annual Meeting of Shareholders

The Company's Annual Meeting of Shareholders will be held on Wednesday, June 29, 1988 at the Westin Hotel, 10135 - 100 Street, Edmonton, Alberta.

DIRECTORS AND MANAGEMENT

Alvin Harter
Edmonton, Alberta

President,
Chief Executive Officer
and Director

John McCutcheon
Vancouver, B.C.

Vice-President, Secretary
Chief Financial Officer
and Director

Alvin Kuehn
Edmonton, Alberta

Director

George Grumieaux
Vence, France

Director

Robert Lee
Vancouver, B.C.

Director

Walter Protsack
Rocky Mountain House,
Alberta

Director

Richard Ray
Los Angeles, California

Director

Jack Sheckter
Edmonton, Alberta

Director

Eckart Buhlmann
Edmonton, Alberta

Chief Geologist

